

IN THE COURT OF THE TRANSPORT TRIBUNAL
TRANSPORT ACT, 1947, AS AMENDED BY TRANSPORT ACT, 1953

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1958 No. 1)



To Confirm the
British Transport Commission (Passenger)
Charges Scheme, 1958

MONDAY, 9TH FEBRUARY, 1959

NINTH DAY



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PROCEEDINGS OF THE TRANSPORT TRIBUNAL

MONDAY, 9th FEBRUARY, 1959

PRESENT :

HUBERT HULL, Esq., C.B.E. (*President*)

J. C. POOLE, Esq., C.B.E., M.C.

H. H. PHILLIPS, Esq., O.B.E.

Mr. E. STEWART FAY, Q.C., and Mr. PATRICK BROWNE (instructed by Mr. M. H. B. Gilmour, Chief Solicitor to the British Transport Commission) appeared on behalf of the British Transport Commission.

Mr. EDWARD MILNER HOLLAND, Q.C., C.B.E., Mr. LEON MACLAREN, and Mr. GEORGE MERCER (instructed by Mr. J. G. Barr, Solicitor to the London County Council) appeared on behalf of the London County Council, Hampstead Borough Council and the Islington Borough Council.

Mr. B. J. MACKENNA, Q.C., and Mr. D. A. GRANT (instructed by Mr. Kenneth Goodacre, T.D.) appeared on behalf of the Middlesex County Council, Berks. County Council, Bucks. County Council, Hertford County Council and Surrey County Council.

Mr. DUDLEY COLLARD (instructed by Mr. E. R. Farr) appeared on behalf of the Barking Borough Council and the South Essex Traffic Advisory Committee.

Mr. LEON MACLAREN and Mr. GEOFFREY RIPPON, M.P. (instructed by Mr. Vernon Lawrence, O.B.E.) appeared on behalf of Anglesey, Cambridge, Cheshire, Cumberland, Denbigh, Dorset, Durham, Flint, Glamorgan, Hampshire, Isle of Ely, Isle of Wight, Lancs., Leicester, Merioneth, Monmouth, Norfolk, Northampton, Nottingham, Oxford, Soke of Peterborough, Somerset, Stafford, West Sussex, Worcester and Kent County Councils.

Mr. D. A. GRANT (instructed by Mr. R. Webster Storr) appeared on behalf of Beckenham Borough Council.

Mr. GEOFFREY RIPPON, M.P., and Mr. ROY CALVOCORESSI (instructed by Mr. G. E. Smith) appeared on behalf of West Ham County Borough Council, East Ham County Borough Council, Croydon County Borough Council, Walthamstow Borough Council and Wanstead and Woodford Borough Council.

Mr. S. H. NOAKES (instructed by Mr. N. P. Lester) appeared on behalf of Hastings Borough Council.

Mr. A. E. TELLING (instructed by Messrs. Radcliffes & Co.) appeared on behalf of the London Passengers' Association.

Mr. P. T. LEWIS (instructed by Messrs. Gaby Hardwicke & Co.) appeared on behalf of the Hastings, Bexhill & District Season Ticket Holders Association.

Mr. ARCHIBALD GLEN, Town Clerk, appeared on behalf of the Southend-on-Sea County Borough Council.

Mr. F. A. RULER, represented the Federation of Residents' Associations in the County of Kent.

Mr. D. J. D. WELLUM, represented the Benfleet & District Railway Travellers' Association.

Mr. JOHN MAGUIRE, F.C.I.S., represented the United Commercial Travellers' Association of Great Britain and Ireland.

Miss DOROTHY D. FORSTER, represented the Walthamstow Trades Council.

Mr. G. A. BAGNALL, represented the Herne Bay Urban District Council.

Mr. PHILIP GAVED JAMES, recalled.

Examination by Mr. MACKENNA, continued

2688. Mr. James, at the adjournment on Friday I had been questioning you on Document WHL 1 and on the tables which go with it, WHL 2, WHL 3 and WHL 7?—Yes.

2689. Although those tables look fairly complicated, they really represent, do they not, an elementary exercise in branch accounts?—I really do not know how to answer that one!

2690. The only real difficulty has been, has it not, to ascertain the figures having regard to the method which the Transport Commission has chosen for keeping their accounts; that is the only difficulty, is it not, in preparing these things?—May I put it this way just to see if I understand you: What you are saying is that in these statements we have taken London Transport as a separate entity except as regards the interest on the Commission's stocks, which London Transport had to bear. Am I understanding you correctly?

2691. Yes, I think that is right; and the exercise which we have performed here, while it is made a little more difficult because of the way in which the Transport Commission have kept their accounts in the past, is quite a sensible exercise when ascertaining what the branch position of London Transport is compared with the rest of the undertaking?—I can answer the first part of your question: It is quite a sensible exercise. The rest of the question seems to be an expression of opinion, which I would not comment upon.

2692. Very well. Do you object in principle to the specific approach that we have made?—Yes, I do. I think I suggested on Friday, that you really cannot divide this up into separate packets for what you are doing and

then, in almost every respect except one, the interest on the Transport Stocks, you are assuming that nothing happened in 1948, and that London Transport was not taken over by the Commission, and that the London Passenger Transport Board continued in existence; I do not think you can ignore the facts of life in that way.

2693. But if the principle is as Mr. Fay has stated it to be, that the Commission has to try and make each part of the undertaking pay its way, how can there be any objection to this specific approach?—The specific approach assumes, as I said just now, that the London Passenger Transport Board continued in existence except in that particular respect that British Transport Stocks were exchanged for those of London Transport. It is a way of assessing, according to a particular point of view, what the finance charges would be and what cash would be left, if you assume that in 1948 a separate cash account were opened for London Transport with that £40m. which we were discussing on Friday; but I do not think that is the way to go to work.

2694. All big businesses which acquire separate undertakings keep accounts for those undertakings, including the capital employed in them?—They do indeed, but you have not a subsidiary company structure here; I think the Act makes it perfectly clear that all the businesses of the British Transport Commission were to be treated as one business.

2695. You are not saying, are you, that there is anything in the account which makes the specific approach a wrong approach as a method to give effect to the principle that each part of the undertaking should pay its own way?—I am saying that you cannot do this specifically as a subsidiary company structure.

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[Continued]

2696. But what is there in the circumstance that London Transport is not a separate company; what is there in the circumstance which makes it improper to make a specific approach if you are trying to find out what contribution that separate part should make to the whole?—The specific approach assumes, does it not, that if London Transport had been completely separate and had had nothing to do with the Commission, it would have proceeded in precisely the way it has done to run its business; while that might be true, there is no knowing whether it would have been or not.

2697. Your method, or rather the Commission's method, which of course you are here to speak for, is what I may call the method of the global approach, is it not?—Yes.

2698. What is the object of that global approach; what are you trying to do by means of it?—By means of the global approach we are trying to find what contribution London Transport ought to make to the Central Charges of the Commission, and we have done it in the way in which we have done it because we do not think you can take the various parts of the Commission apart, as you are trying to do in these statements, and treat each of them as a separate business having no connection with anything else.

2699. You pointed out, and I will come back to it in a moment, a difficulty in the specific approach; that is to say, the difficulty of ascertaining where money came from which is required for capital expenditure on part of the whole undertaking, if you remember that point?—I do.

2700. I shall come back to that presently. You would not pretend, would you, that the global approach is free from difficulty?—Oh, no; we have never said it was free from difficulty.

2701. You have proposed, you and Mr. Winchester, I think, some four tests of the figure thrown up by your global approach; that is to say, the figure of contribution to Central Charges?—Mr. Winchester has.

2702. But you are familiar with the argument?—Yes.

2703. You would not pretend, would you, that any of those tests could be described as a scientific test for its purpose?—No, I think that is fair; we have never said that any of them will give you an absolutely precise answer.

2704. On the one hand you have the difficulty according to my method of identifying capital expenditure; on the other hand, on your method, you have the virtual impossibility of determining whether you have the right figure or not?—Yes. I do not think your method involves any difficulty of identifying capital expenditure; that is perfectly easily seen from the accounts. The difficulty is finding how that capital expenditure was financed.

2705. Taking the matter up to date—that is to say, up to 1959—there is, as I understand it, the evidence you gave to this Tribunal in 1957 in this matter in dealing with the case of London Transport. I will tell you the answer I have in mind; it is in the 1957 transcript, page 48, the second column, Question 617, when you were giving evidence on the 2nd July, 1957. You were being cross-examined by Mr. Lawrence?—Yes; I have the reference.

2706. The question he put to you was this: "I appreciate that, but I was going to follow it up by suggesting what had fallen from the President, namely, that by and large—and I must deal with it broadly—the increase in the total of Central Charges since 1953 has not been accounted for by the need to raise any further capital for the benefit of London Transport?" and you answered: "I think it is probably true that since 1953 London Transport's capital expenditure has been met by London Transport depreciation?"—I would still agree that.

2707. That is still right, and it is the answer, is it not, which one has to bear in mind when one is considering the answer you gave me on Friday; that is at Day 8 of the present proceedings, page 192, Question 2680. I will forbear reading the long question and pass straight to the answer: "It is very easy," you said, "to find the Stock issued in the first place to purchase the transferred undertaking; it is exceptionally difficult to find out what Stock was issued subsequently to finance what piece of capital and what undertaking". The question I was going to

put to you on that is this: That in respect of London Transport up to date there is no such difficulty as that which you point out in the answer I have just read, which you gave on Friday?—I think there is every difficulty. There is no such difficulty if you start by taking £40m. as you have done and say, as I said on Friday: "I am going to put that in cold storage for London Transport and let them draw it out as they want to". Those two questions, if I may say so, are dealing with somewhat different aspects of this matter; the one in the 1957 transcript was dealing with this point of whether you can assess how much additional capital the British Transport Commission has had to inject into London Transport, or how much surplus cash has resulted from the Commission out of the London Transport operations; but that is merely dealing with the position in relation to a particular year—

2708. With respect, it is dealing with the position since 1953, is it not?—I agree.

2709. And all I was seeking to point out was this, that in your answer at page 48 of the 1957 transcript you made it plain, as I think Exhibit WHL 2 also makes it plain, that London Transport's capital expenditure over the past years has been made out of funds provided by London Transport?—I think there could be no possible dispute about that. I think I said in my evidence-in-chief that London Transport had been self-financing from several recent years.

2710. And therefore that difficulty which you pointed out in your answer to Question 2680 of these proceedings, that it might be exceptionally difficult to find out what stock was issued subsequently to finance what piece of capital and what undertaking, is not a real difficulty in relation to London Transport at the present time?—Of course, one could always find an argument to support a particular point of view, if you look at part of the facts. You are looking at 1953 onwards; you are ignoring 1948 to 1953, when there was a very substantial capital investment in London Transport.

2711. It would not be right to say, would it, that Document WHL 2 ignores capital expenditure from 1948 onwards, because Document WHL 2 shows how that capital expenditure is made out of the funds including the £40m. with which London Transport started, according to our method of showing the account?—Yes; we are back where we started, whether we should take the £40m. and put a little label on it and say that that is London Transport money. If you make that assumption, the rest of the calculations follow from it; if you do not, you are in difficulty.

2712. I am going to pass now to another matter, on Document WHL 7, and here I want your help in connection with an answer you gave on Friday at page 185, Day 8, Question 2562. The question is: "Will you point out where you differ?" I am questioning you about the provision of £25m. which stood in the London Passenger Transport Board's books as a provision for maintenance and renewals, and your answer was?—It was not quite that; let us get it right. It was the unappropriated balance of the maintenance allowance, which is a rather different thing.

2713. Yes, and in answer to the question, which I am going to read, you have explained that £25m. You say: "There is a sentence in the first paragraph"—that is the first paragraph of Mr. Lawson's notes—"saying: 'This account represented partly a provision to meet expenditure on maintenance' and so on"—?—I am sorry, but I have not the reference; this is a note on which Exhibit?

(Mr. Patrick Browne): It is WHL 1, Item 5.

2714. (Mr. MacKenna): Thank you very much. (To the Witness): It is the third sentence in the note to Item 5, on page 2 of the notes to Exhibit WHL 1; it is the sentence of which you read part in your answer, and it reads as follows: "This account represented partly a provision to meet expenditure on maintenance which had been deferred during the war years, and partly a general provision for renewals of land and building assets (also called ways and structures assets) for which no depreciation is charged". You read part of that sentence in your answer to Question 2562, and you went on as follows: "The account, as was explained at the 1953 hearing, consisted of three main elements: The difference

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[Continued]

between the provision which has been set aside for depreciation during the period of Government Control and the amount which had been received out of the account in respect of depreciation at replacement prices, that was about £16m.; and a balance of about £9m., which related to these two items you have mentioned here and to arrears of maintenance expenditure on rolling-stock assets. That has been set out in some detail in the 1953 hearing and is referred to in the Tribunal's Memorandum"—Yes.

2715. When I was questioning you on Friday in relation to the need to charge revenue with £4.1m. during the years 1948 to 1954, over and above the sum actually spent on maintenance—that is Item 5 on Exhibit WHL 1—I accepted the division that you were making there of the £25m. into £16m. and £9m., and I asked you why, if there was £9m. available as provision for maintenance and it was necessary to charge revenue with a further £4.1m., bearing in mind that the amounts which were debited to the provision in 1948 to 1954 were less than £9m., and were only £4.8m. according to WHL 7—you remember the point?—Yes, I remember the point.

2716. I want your help about this: Has the £9m., which is the first part of the £25m., been used in replacing assets of London Transport, and if it has, ought it not to appear somewhere or other in the figures summarised in WHL 7?—You do not use a reserve account to replace assets; you use cash. Sir Reginald Wilson pointed this out in very considerable detail in 1953 when the same point was argued; he said then that we had spent a great deal of money on the replacement of assets in 1953.

2717. But I look at Exhibit WHL 7: I find what had been debited to provision in respect of the two classes of assets, the rolling-stock assets and the ways and structure assets; I find equally what has been credited to provision in respect of those two classes of assets, do I not?—Yes.

2718. Then I come back to my question: Has the £16m. been used for replacing assets?—I am sorry, but I do not follow you.

2719. I am sorry; I am sure it is my fault. We start with a provision of £25m.; that is right, is it not?—Yes.

2720. Has that provision been used for purposes of London Transport—that provision, as distinct from the £5.8m., part of the £9m., which undoubtedly has been used?—You know, I think we shall have to go into the whole matter in very considerable detail. I think Sir Reginald Wilson pointed out—again I am going back to 1953, but this is not my favourite bedside reading, so I have not reminded myself of everything that was in it; but I think he pointed out that there were contained in the Balance Sheet of the London Passenger Transport Board certain nominal assets, and there was also a difference between the nominal value of the stocks which were issued for replacement of London Passenger Transport Board stocks and the nominal value of these latter stocks. That difference and the amount which was previously standing in the capital account in respect of those what I will call nominal assets, was transferred to the Assets Displacement Account. Let me say this: That Account, at that point in time, showed a very large debit balance in respect of London Transport; at the same time there was included in the abnormal maintenance account, which was subsequently called the Maintenance Equalisation Account, a large credit account in respect of London Transport. In 1956 those accounts were all amalgamated and there is nothing left of that particular sum.

2721. Now will you relate your answer to Exhibit WHL 7?—I do not think I can relate my answer to Exhibit WHL 7, except to put it this way, that all these transactions which are set out in Exhibit WHL 7 for the years 1948 to 1953 were reflected in the Commission's abnormal maintenance account as it was called at that time.

2722. I see. Now let me ask you another question on Exhibit WHL 7: You remember on Friday that I drew your attention to the very large sums which had been charged to revenue in respect of rolling-stock assets—buses—during the years 1950 to 1953?—Yes.

2723. I think you said that it was necessary that that should be done, because new buses had been bought in those years upon which the maintenance charges were

low, and that it was right to make some kind of provision for the future in respect of the years when expenditure on buses would be larger?—You see, we are getting into difficulties here with this word "maintenance", which tends to be a term of art. I think I said "overhaul expenditure".

2724. I was not drawing a distinction?—But it is very important. There are two things which happen to a bus, or to any other piece of rolling-stock; you have to do maintenance and service, which goes on all the time, and there is also the periodical and quite heavy expenditure of overhauling the vehicle. I think it may be helpful if I were to go over this point again, if you are willing that I should do so. If you have a fleet of buses which are being replaced on a fairly regular basis—that is to say, if you have 100 buses and they have a life of ten years, and ten are being replaced every year—your overhaul expenditure will tend to equalise itself out. But if you have a very large fleet of buses and you quite suddenly and in a very short space of time replace the whole of that fleet, as we did in the years 1948 to 1952, you obtain a substantial temporary benefit because you do not have any overhauls to carry out on the buses which are taken out of service, and you do not carry out any overhauls for three or four years on the new buses which come into service. You therefore have a temporary saving on revenue account. Because you have replaced your vehicles in such a short space of time and because you have not replaced them on a regular basis, the savings do not tend to equalise themselves from one year to another. In our case we are getting a very heavy overhaul expenditure in the middle years of the life of the new fleet, and the standard charge we are charging to revenue in the years 1948 to 1952, including a nominal provision for overhaul. We did not spend it; we said we were not going to have to spend it for another three or four years' time, and it is proper in the meantime to transfer that to the abnormal maintenance account and draw it out as we have been doing from 1953 to 1957, and we shall be doing in the years 1958 and 1959.

2725. When I questioned you about this on Friday, I think you gave an answer that a transport undertaking like yours was not comparable to a sweetshop?—Yes.

2726. That was rather suggesting, was it not, that my suggested method would be appropriate to a sweetshop, but not to a transport undertaking. Do you remember that?—Yes.

2727. I am told—and you must tell me whether I have been told rightly or not—that even in transport undertakings the method which you employed here of charging sums to revenue in respect of future overhauls is not customary; what do you say about that?—I should think that is perfectly true, because I should think that the circumstances which existed in London Transport in the years 1948 to 1953 have not been repeated elsewhere.

2728. You mean the circumstances that they were buying new buses then?—No, but they were buying a very large number of new buses in a very short period of time, and far more buses than they would have purchased if their overhaul programme could have been spread over.

2729. Under the Transport Act, the British Transport Commission did take over in 1947 a number of road transport undertakings, did they not?—Yes.

2730. For which, of course, compensation had to be paid?—Yes.

2731. That compensation was based, I think, on the profits of those undertakings during a past period?—I should think that may be so; I do not know the facts.

2732. Can you help me about this: In assessing their compensation, did the Transport Commission contend that those undertakings, many of which had, of course, bought new lorries shortly before the transfer date, should have their revenue charged with provisions for overhaul in the future?—I think it was probably done in a rather different way, —am not knowledgeable on this subject, but I do happen to know that in assessing the compensation for some bus undertakings, account was taken of the fact that certain of the vehicles were in a sub-normal condition, because the overhauls had not been carried out.

2733. (President): Of course, Mr. MacKenna is talking about road haulage?—Yes, Sir. I am answering him as far as my knowledge goes.

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[Continued]

(President): We should have to call Mr. Montgomery Hyde on the road haulage compensation, Mr. MacKenna.

2734. (Mr. MacKenna): We obviously would, Sir. (To the Witness): Still looking at Exhibit WHL 7, under the heading "Credited to Provision: . . . ways and structures assets", I see from that that there were very large sums credited to Provision during the years 1948 to 1953 and again on an equalisation basis during the years 1954 to 1957?—Yes.

2735. Does that not suggest that you are charging the revenue of London Transport in respect of those years with sums which are not in any sensible way required to be charged to revenue?—I do not think so.

2736. You did take the point, when I questioned you about buses, that whilst large sums had been credited to Provision in respect of the years 1950 to 1953, large sums had also been—nothing like so large, but large sums had also been—debited to Provision in respect of buses during the years 1954 to 1957. Do you remember that?—Yes.

2737. But I do not find anything comparable in the case of ways and structures assets, although you go on providing large sums on the equalisation basis credited to provision in respect of those assets during the years 1954 to 1957. I make that comparison and I invite your comments?—You see, this is the kind of thing that may well happen when you are trying to equalise your renewal expenditure. You will get years when you credit items to Provision Account; in relation to renewals the standard charge basis is very similar to the equalisation basis. There may be years when you have credited money to the Provision Account and years when you will be taking it out. In those years you say you find nothing comparable in the way of deficits, but if we take 1954 to 1957, your statement shows that we put into the Provision in 1954 £0.4m. and £0.3m. in 1955—I am speaking of the bottom line of Exhibit MHL 7. In 1956 we put nothing; in 1957 we put £0.3m., and looking ahead—

2738. I am sorry but I am not sure which figures you are looking at. I have been asking about ways and structures assets in 1954 to 1957, and if you take 1954 the amount seems to be something in the neighbourhood of £622,000, and it seems to be about £700,000 in 1955, £588,000 in 1956 and £657,000 in 1957. It is in relation to those figures that I have been trying to make my point?—Let me just tell you how this equalisation charge is made up, because I think it will help you to understand the transfers to and from the account. What we try to do is to assess our likely expenditure on renewal of non-depreciated assets over a forward term of years, from seven to ten, and we try to spread that expenditure reasonably equally over those years. In those conditions it is inevitable that in some years you will have sums paid into the fund and in other years sums drawn out, and I am saying that in the years beyond 1957 you are going to find this position reversed. After all, that is the whole object of equalisation.

2739. The comment is there, and I think it is an obvious one; I think you will agree that so far as the years for which we have accounts are concerned, very large provisions are being made year after year under the heading of "ways and structures assets", and during those years nothing has been debited to Provision in respect of those assets?—That is entirely factual.

2740. Factual, and according to you, fortuitous?—It is not fortuitous.

2741. It so happened that you had a period of four years during which large sums were credited to Provision and nothing debited to Provision?—But it is not fortuitous in the sense of being lucky; it is the way the overhaul programme works out.

2742. I do not know whether it can be given conveniently in a short answer, but can you tell me the method of equalisation which was employed after 1953, when standard charges were abolished both in respect of the debits and credits to Provision which are shown in Exhibit WHL 7?—Shall we take the debits first of all? Those are the amounts drawn out in respect of bus rolling stock and trolleybus rolling stock. When we abandoned the standard charge procedure at the end of 1953 we made an assessment to the extent to which we could be regarded as being in arrears on bus overhauls because

we had had so many new buses which had not required overhaul in the years 1940 to 1952. We assessed what ought to be a normal overhaul programme over a few years in so far as we carried out in the years 1953 and 1954 more overhauls than we should have done under the normal programme because we had to catch up on the past. We drew out of the Provision Account and we shall go on doing that up to 1959 when we have exhausted the provision, and when we can expect the overhauls to be on a reasonably steady basis year after year. That is with regard to the buses.

In the case of the trolley-buses, we assess what excess maintenance would be likely to occur in a few years because they were getting very old; we said there would be something out of the abnormal maintenance account when the standard charge procedure was terminated in 1953; we brought that account to the credit of revenue in 1954 and 1956. I do not pretend that the trolley-bus method is a very scientific one, but the bus one is. That is with regard to the bottom part of the account.

Now we come to the top part; in 1953 we looked at our future investment programmes as we saw them at that time, carrying them forward as far as we could for 10 years, and we assessed what we were likely to spend on the renewal of signalling, permanent way, buildings and all the other non-depreciated assets over those 10 years. From that we assessed what would be the reasonable normal charge to revenue. If we did not spend that charge in 1954 to 1957, as we did not, we carried the unspent balance to renewals appreciation on the account. Each year we have looked at the basis of our figures to see if we were doing it properly and whether the future investment programmes supported what we were doing. There is no secret about this thing; it is a carefully assessed figure. I will not say that it is calculated, but it is a carefully assessed figure after discussion with engineers who know the basic facts about our assets. I do not know whether that covers the point for you?

2743. Thank you very much. Do you remember that on Friday I was asking you about a figure on Exhibit WHL 7, the figure of £4,116,000, which is the total of the sums credited to Provision during the years 1948 to 1957?—Yes.

2744. I think you told me then that the figure was rather too low and that it ought to be £4,236,000?—

(President): I am afraid "1948 to 1957" will get on the note, Mr. MacKenna; you meant "1948 to 1953" did you not?

2745. (Mr. MacKenna): No, Sir, I think not. I have the figure of £4,116,000 as the total of all the figures from 1948 to 1957, beginning with the figure of £285,000 and ending with the figure of £657,000. (To the Witness): Is that right?—No—ending with the figure of—

2746. (Mr. MacKenna): You are perfectly right, Sir; may I try again. The figure of £4,116,000 is the total of the credits to provision for 1948 to 1953?—That is right.

2747. And I think you told us that the right figure was somewhat higher?—Yes.

2748. I am not sure about this; did you undertake to get me the accurate figure?—I did. I gave you a figure on Friday, but I gave it wrongly, I am afraid. The correct figure is £4,263,000.

2749. (President): And not £4,236,000?—No, Sir, I reversed to the last two figures.

2750. (Mr. MacKenna): I want you to turn next to another table in this bundle which we have not yet looked at; it is Table WHL 4. I think there was a little bundle of notes to go with that table, which you have been given?—Yes.

2751. Table WHL 4, as the notes show, is based as to Item 1 on the figures contained in Exhibit PJ 11?—It is, but it is wrongly described in the 1958 column; it should be called "1958 (budget)".

2752. Yes, that is perfectly right?—It is very important.

2753. Exhibit WHL 4 is Mr. Lawson's attempt, is it not, to estimate the surplus or deficit in respect of 1958 and 1959 budgeted amounts?—Yes, on the approach of the other tables.

2754. On the basis of his Table WHL 1, the specific approach to give figures which on that approach are

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[Continued]

to be compared with the figures you find on PJ 11?—I do not think I quite agree with you there. May I see if I understand it: This exhibit starts off with total net receipts of £5.5m. which it attributes to the year 1958, and that is comparable with Line 3 of Document WHL 1?—Yes, that is quite right. Then I understand it.

2755. But I am looking at Exhibit PJ 11 which is printed on Page 29 of Day One of these Proceedings. If you look at Exhibit PJ 11, Line 7, that is a line which is called "Total net receipts"?—Yes.

2756. The total net receipts, according to Exhibit PJ 11, for the 1958 (budget) are £5.5m.?—Yes, I agree.

2757. And the total net receipts for the 1959 (budget), according to Exhibit PJ 11, are £5m.?—Yes, that is right, and that is the figure which is comparable with Line 3 of Exhibit WHL 1.

2758. Yes, but now I am on Exhibit WHL 4, and what Mr. Lawson has done in Item 1 on that document is to take the two figures which I have just read out from PJ 11, the total net receipts for the 1958 budget and the 1959 budget, £5.5m. in the one case, and £5.0m. in the other?—Yes.

2759. And then he has added to that, has he not, £300,000 in respect of net receipts from "surplus lands" for each of those two years?—Yes.

2760. He has added to that a further sum of £100,000 in respect of each of the years for Income from Investments in respect of Redemption Fund?—Yes.

2761. I take the year 1958: Those sums total £0.4m. to be added to the total net receipts of £5.5m., giving a total of £5.9m.; the corresponding figure on WHL 4 for 1959 is £5.4m.?—Yes. This picks up the first part of Exhibit WHL 1; what I do not understand is why there is nothing in here corresponding to Line 6 in WHL 1.

2762. May I just turn to Line 6 of that document; that is "Net provision to equalise charge", is it not?—Yes.

2763. And are you saying that there ought to be something comparable to Line 6 of WHL 1, in WHL 4?—I would have thought so—unless, of course, we are proceeding on the assumption that payments into the Equalisation Accounts in the years 1954 to 1957 must be disallowed, whilst withdrawals in 1958 and 1959 can be disregarded.

2764. Are you saying that there were withdrawals in 1958 and there there will also be withdrawals in 1959 from the Maintenance Equalisation Account?—I am. I will give you the figures: They are £0.1m. in 1958 and £0.7m. in 1959.

2765. Would you look at Exhibit PJ 12; that is on Page 29 of the First Day, just under PJ 11. That is a table, is it not, which is giving a summary of the changes in the financial position between the 1957 and 1958 budgets and the 1958 and 1959 budgets?—Yes.

2766. It is really explanatory of PJ 11?—Yes.

2767. I notice there that there is an Item 6 "Variation (excluding reduction arising from mileage changes) in Volume of Maintenance Work". There is the sum of £400,000 to be added to the 1958 budget, more than 1957, and there is the sum of £400,000 to be deducted from the 1958 budget in arriving at the 1959 budget figure?—Yes.

2768. That is right, is it not?—Yes.

2769. Are you saying that over and above those variation explained in Item 6 there is expenditure upon maintenance of a further £100,000 in 1958 and of a further £700,000 in 1959, which is not accounted for in Exhibit PJ 12 and which is therefore not accounted for in Exhibit PJ 11?—It does not need to be accounted for in Exhibit PJ 12.

2770. But you say it is not accounted for?—No.

2771. Why does it not need to be?—Exhibit PJ 12 is a table with what I might call a respectable ancestry; it goes back to about 1950 in these Inquiries and it has always been and explanation of the differences in the charge to revenue for the items mentioned in it as between one year and another. It is perfectly correct that these figures which are shown in PJ 12 represent the difference in the revenue charge for maintenance as between 1957 and 1958 and as between 1958 and 1959. This table does not reflect—it never has reflected in any previous Inquiry—expenditure which is chargeable to the Equalisation Account in

years when amounts were paid into the Equalisation Account. That has been treated as revenue expenditure in years when money has been drawn out; it is treated as reduction in revenue expenditure before we come to this table. The maintenance equalisation transactions do not affect these tables because the charge for equalisation is precisely the same as between two years. I am not sure that I make that clear?

2772. I think I understand?—I will try again if it would help you.

2773. No; I think I have understood. I come back now to Exhibit WHL 4; we then went through the first half of the table, and I think you made the comment that we ought really to subtract from the figure of £5.9m., £0.1m.—that is the figure for 1958 at Line 5—and that we ought to subtract from £5.4m. for 1959, £700,000 in respect of money drawn from the Maintenance Equalisation Account?—Yes. I make that comment because, as I understand it, Exhibit WHL 12 is a combination of a principle of WHL 2, and the same rules should apply all the way through.

2774. (President): It is not WHL 12; it is WHL 4, is it not?—I beg your pardon, Sir; that is right.

2775. (Mr. MacKenna): So much for the first half of Exhibit WHL 4. In the second half of that document has Mr. Lawson in respect of each of the years on the specific approach debited London Transport with its contribution to central administration expenses, interest on British Transport stock, amortisation of discount on British Transport stock and provision for redemption of British Transport stock?—Yes.

2776. That totals £6.1m. for 1958 and the same sum for 1959?—Yes.

2777. On Mr. Lawson's figures that gives a debit figure for 1958 of minus £0.2m., which you say ought to be minus £0.3m.?—Yes.

2778. And it gives for 1959 a debit figure of minus £0.7m., which you say ought to be minus £1.4m.?—Yes.

2779. And from these two figures has to be subtracted, according to the specific approach, the interest in the now very considerably reduced surplus funds, £200,000 in each year?—Yes.

2780. That will give you for 1958 a figure of minus £0.1m. and for 1959 a figure of minus £1.2m.; is that right?—Yes, that is right.

2781. And those are the figures, according to the specific approach, which are comparable to the figures arrived at by your approach, on Exhibit PJ 11?—Yes, I think that is right. You get for the 1958 budget minus £0.1m. and I get minus £0.5m.; for 1959 you get minus £0.2m. and I get minus £1.0m.?

2782. Yes, that is correct. Exhibit WHL 5 is a table, is it not, which is simply designed to show the movements of surplus funds during those two years 1958 and 1959, relevant to Exhibit WHL 4 only in respect of interest on surplus funds; that is Item 12?—Yes, but may I just say this about it. This statement arrives at a final surplus of £4.0m.; that surplus, like the surplus shown against 1958, depends upon the acceptance of the budget.

2783. And if you have lost money in 1958, that money would, on this approach, have to be deducted from the surplus funds shown on Exhibit WHL 5?—That is what I have found so comforting about this statement. If I have lost enough money, we have spent the £4m., and this kind of discussion need never take place again!

2784. That would indeed be a great comfort. But I have it right, have I not?—Yes.

2785. The only comment you wish to make on Exhibit WHL 5 is that it represents a budget statement, and the actual loss in 1958 is worse than you have forecast in the budget; have I got it right?—Yes, that is right. May I just correct that? I do not forecast a loss, but I forecast insufficient net receipts to pay my finance charges.

2786. Yes; that is the sense in which I use the word "loss"—you are quite right. Now I want to come back for a moment to the two figures which you gave me a moment ago. You have £100,000 for 1958 to be drawn from the maintenance equalisation account and the £700,000 to be drawn from the maintenance equalisation account for 1959?—Yes.

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2787. Are those two figures gross or are they net?—They are net, in exactly the same way as the figures at the bottom of the 1954 and 1957 columns of Document WHL 7.

2788. Can you give me the corresponding gross figures?—Yes.

2789. If it is difficult?—No, I can give them to you. The amount debited to the Provision in 1958—£10.5m. and in 1959 it is £0.8m. The amounts credited to the Provision in 1958 is £0.4m. and in 1959 it is £0.1m.

2790. I want to come to another matter. When you were giving your evidence-in-chief you gave some evidence about future capital expenditure on account of London Transport; do you remember that?—Yes.

2791. I think you used this expenditure as a reason for requiring a General Reserve and also, I think, as some support for the contribution to Central Charges which you thought it proper to make against London Transport?—I think I used it as a reason for the particular figure we had selected for Central Charges, but I did not think I used it as a justification for a General Reserve.

2792. If it is irrelevant to the topic of General Reserve, we will consider it only in relation to the Central Charges figure?—I think that is as far as I went.

2793. I think I find your evidence about this subject of future capital expenditure in two answers, one at page 75 of Day Three, and the other at page 78 of Day Four. If I may just remind the Tribunal of that answer, on page 75 at Q.615 you were asked: "Can you give some general indication at this stage of the capital programme you are referring to and the time when the expenditure is likely to be incurred in the next few years?—Yes. To give the figures in a very summarised form, there will be expenditure on the replacement and modernisation of railway rolling-stock to be incurred in the years 1959 to 1963, exceeding £24m.; there is the outlay on the trolley-bus conversion scheme, that is to say, the replacement of the greater part of the trolley-buses by buses, and that involves an outlay on capital account exceeding £9½m. incurred in the years 1958 to 1962; there is work on the modernisation of the power supply system involving a capital outlay exceeding £6m. in the years 1959 to 1962; there is the four-tracking of the Main Line—"

(President): "Main" has been changed to "Metropolitan".

2794. (Mr. MacKenna): I missed that, Sir. "... of the Metropolitan Line from Harrow to Watford South Junction and the electrification of the line from Rickmansworth to Amersham, involving a capital outlay of more than £3½ m., again in 1958 to 1962. Those items I have mentioned are not the whole list, but they add up to very nearly £44m. to be spent in the years 1958 to 1963; the greater part of it in 1959 to 1962, and the greater part of it for essential replacements and things which are wearing out." That was your first answer, and then I think you returned to the subject at page 78, in your answers to Qs.637 and 638. At Q.638 you were asked: "... What is the total amount that London Transport expects to spend on Capital Account in the years 1959 to 1961?—(A) £37m. That is mostly for essential replacement of rolling stock, plant and equipment"—Yes.

2795. Can you give me the figures for the years 1958 to 1961?—In detail or in total?

2796. Just in total for each year 1958, 1959, 1960 and 1961?—1958, £2.5m., 1959, £7.4m. 1960, £12.6m., and 1961, £16.8m.

2797. The figure you gave in your answer at Day Three, which I have just read, for railway rolling-stock was £24m., I think, part of the larger sum?—Yes.

2798. Can you tell me what is the period of life which the Transport Commission, on the London Transport side of it, takes for railway rolling stock in computing depreciation?—Before I answer that may I just add to the previous answer I gave?—You said "part of the larger sum", but I do not think the whole of that rolling-stock expenditure is to be incurred in the years for which I gave the totals, it goes on to 1963.

2799. You are quite right. What is the life you take for railway rolling-stock?—For the normal Tube or surface rail car—which, after all, comprises the bulk of our rolling-stock—30 years.

2800. What do you take as the life of trolley-buses?—18 years.

2801. And the electricity supply assets?—It depends which part we are talking about.

2802. I am talking about the same part as the part on which you are going to spend £6m. according to the answer you gave at Day Three?—That does not help us, because I am going to spend it on both generation and distribution, so I will give you the two: For generating plant we take 25 years, for distribution plant—that is sub-station plant—we take 30 years, for high-tension cables—which are also involved in the Modernisation Scheme—we take 35 years. So that you have a range from 25 to 35 years.

2803. It seems to follow from the answers you have just given that, taking the railway rolling-stock first, the expenditure upon that stock is to replace stock which was already fairly old at vesting date?—Vesting date was when?

2804. 1948?—Yes, it was over middle-age, anyhow.

2805. If we take your figure of 30 years, some 20 years of its life was spent when the assets were transferred?—Yes.

2806. If you make a similar calculation for the trolley-buses, taking your 18-year life, about four-ninths of the life of those assets was spent, according to my reckoning, at vesting date; something pretty near a half?—About eight years, yes.

2807. If you take, for simplicity's sake, the 30-year period that you gave me for part of the electricity supply equipment, again two-thirds of the useful life of those assets was spent at the date of transfer?—Yes.

2808. The expenditure on electrification and widening—which is part of your programme for London Transport—would, presumably, be of the nature of an extension or addition, an improvement rather than a replacement of an existing asset?—To a very large extent that is true. There is an element of replacement in it, but mainly it is improvement.

2809. Would you agree with me that the amount required for improvement would be properly raised by borrowing?—Yes.

2810. Would you also agree with me that that part of the expenditure on railway rolling-stock which covers the life of the stock which had been spent at vesting date would also be properly raised by borrowing? Do I make my question clear?—Yes, you do, you make it quite clear.

2811. The position, as I see it, is this: The British Transport Commission acquired at vesting date some old stock. It is now going to buy some new stock. The difference between old and new would be properly raised by borrowing?—Yes, I see that—I am sorry, you say the difference between "old and new"?

2812. I mean if you take the railway rolling-stock, you are going to get for your expenditure of £24m. new stock?—Yes.

2813. The assets which you took over were rolling-stock of which two-thirds of useful life was spent?—Yes.

2814. Therefore, when you have bought the new rolling-stock you will then have new assets compared with the old assets with which you started?—Yes.

2815. The question I am putting to you in relation to the rolling-stock is whether that part of the £24m. which can be regarded as the difference between old and new—on my figures £16m., namely, two-thirds of the total—would properly be raised by borrowing. Have I made it clear?—Yes, but I am not quite clear why we stop at two-thirds. I would have thought it right to say that the whole cost of the new stock will have to be met by borrowing in so far as it cannot be met out of existing resources.

2816. You have got to get money somehow, but if you were considering an undertaking which had got money which it could spend and which was also in a position to borrow, it would be wrong, would it not, to say that that £44m. ought to come altogether out of the money which the undertaking might have in hand, it could quite properly borrow in respect of that if it thought it convenient to do so?—I think I understand it now. May I just put it in my own way and see if I understand: You are

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assuming a firm which acquires partly worn-out assets and with no fund towards replacement, and you are then assuming that the depreciation provision and replacement provision which have been saved subsequently are still in the cash-box, and therefore you have to borrow to the extent to which you have to incur expenditure on putting back the life which was expired at the date of acquisition.

2817. Yes. You can quite properly borrow, as distinct from trying to collect the money by means of extra charges from the public to use your services?—The public will have to pay extra charges if there has to be some money borrowed.

2818. I mean you would not say that there was anything financially unsound in London Transport so conducting its affairs that it did not try to collect in advance from the public the £6m. that I am talking about by way of extra charges for services, but borrowed that part of the money, no doubt having to load the interest on that borrowing on subsequent fares?—Oh, yes, I entirely agree with you. I have never said anything different from that, as far as I know.

2819. Indeed not. Similarly as to the buses the electricity supply with regard to that part which represents the difference between old and new?—Really, if you are assuming that you have put your depreciation provision in this cash-box, you have to borrow two things: You have to borrow the equivalent of the expired life at the date of acquisition, and, secondly, you have also got to borrow the difference between current replacement prices and the value at which you set the depreciation provision, unless you have provided adequately for depreciation.

2820. Taking the figure of £44m. which you gave us in the answer which I read from your evidence at page 75, Q. 615, and subtracting from that figure of £44m. the £16m. I have been speaking about in relation to railway rolling-stock and the comparable figures in relation to buses and electricity supply, and the £33m. for electrification and widening, I get a balance of about £16.5m.?—May I accept it that the arithmetic is right? I know what you are doing.

2821. The arithmetic can be checked. It is two-thirds of £24m., four-ninths of £93m., two-thirds of £6m., and the whole of the £34m. You subtract the sum of those from £44m. and you get, I think, a balance of about £16½m.

(President): So far we are in agreement.

2822. (Mr. MacKenna): That sum of £16m., which is the difference, could quite easily be financed, could it not, from the present annual depreciation of something in the order of £3.7m.?—Of course it could not.

2823. Let me finish—taking into account any surplus you might have?—No, it cannot.

2824. Why not?—We have got to spend—I think I gave you the figures this morning—something like £39m. in the years 1959 to 1961, and depreciation, on the basis on which we are setting it aside today, will provide £14½m., four times £3.7m. If depreciation is provided on the proper basis that I am asking for, there will be another £12m., shall we say, four years at £3m. That is £26m. I have got and, even on your calculations, I have only got £4m. for the surplus, and I cannot finance £39m. out of £30m.

2825. I have not made myself clear. I was saying that as to part of the £44m. I think as to some £28m. of the £44m., that would properly be raised by borrowing, representing, as it does, the difference between new and old. That leaves you with about £16m. to be financed otherwise than by borrowing, and I was suggesting that your depreciation provision, at its present level of about £3.7m. a year, would give you almost enough to pay for that £16m. part of the £44m. Do I make myself clear?—I wonder if there is really anything between us. All I was saying in the course of my evidence-in-chief was that, if we were to incur this capital expenditure in the next four years, there would be an increase in interest charges of a certain sum of money. I had calculated that figure by assuming that I was going to borrow all the money except what would be provided by way of depreciation provision and other internal sources, so I think we are really on the same lines.

2826. I was conceding the need and the propriety of borrowing part of the money. All I was seeking to get was your agreement that the balance of about £16m., on my calculation, could be met, within a comparatively small amount, out of the depreciation sum put by each year at your present level of £3.7m. for depreciation?—I do not think I am in any dispute with you on this. The £44m. you are referring to is the expenditure on a list of assets which I gave in the course of my evidence, but there is other expenditure being incurred which I did not specify as I was dealing with individual items. But I think I would entirely agree with you that, in so far as we provide internal savings by way of depreciation and provision for renewal, we do not want to borrow, and I would go so far as to agree with you that over the next few years the amount which we should borrow would probably agree with your calculated figure.

(President): I think you said this in answer to Q. 639, where you put the borrowing need as £12m. to £15m., a little lower than Mr. MacKenna.

2827. (Mr. MacKenna): Thank you very much, Sir; I am afraid I had overlooked that?—I should have drawn your attention to that sooner.

2828. I think we are really together on this matter, and I can pass to something else?—Yes, we are at one.

2829. The next thing about which I want your help is the £3m. which you say is required for Depreciation Reserve?—Replacement Reserve.

(President): Before you pass from that, having drawn your attention to Q. 635, I ought to draw your attention to Q. 640, which sets out the assumptions on which the £12m. to £15m. to be borrowed is arrived at.

(Mr. MacKenna): That is quite true, Sir; I am very much obliged. He is saying that depreciation would be on a replacement basis, and that, no doubt, means that something more than the £3.7m. will be available each year.

(President): Not merely that. Very probably it does not matter, but there is also £2m. for General Reserve. He is making both those assumptions, and that may account for the difference between his £12m. to £15m. and your £16m.

(Mr. MacKenna): I wonder whether we really are upon the same calculation. Mr. James is dealing with the borrowings which he requires to do the £44m. worth of work, and he is saying, is he not, that he will need to borrow £12m. to £15m., and that is comparable with my figure of £28m. I have said you can properly borrow £28m., part of the £44m., and the balance of £16m. you can provide out of your depreciation moneys each year. What he is saying here is we have to raise £12m. to £15m. of new capital money, because I will get the difference out of the Replacement Reserve plus the General Reserve, plus the money put by each year to depreciation.

(President): Plus internal savings generally?

(Mr. MacKenna): Yes. So he is saying, in fact: "I am going to borrow less than I am suggesting and provide the rest of the money in this particular way." I do not think his figures of £12m. to £15m.—which are his borrowings—are comparable to my figure of £16m., which is the self-financing.

(Mr. Poole): They are really comparable with your figure of £28m.?

(Mr. MacKenna): Yes. It is less than my £28m., because he is saying: "I am going to put by each year £3m. to Replacement Reserve, which will be available, and £2m. to General Reserve, which will be available over and above the depreciation money I put by each year."

(The Witness): I can give you the calculations if it would assist.

(Mr. MacKenna): I think we have got it fairly clear.

(President): Give it to me later on a piece of paper and I will see whether Mr. MacKenna would like it. We do not want to clutter up the Note.

2830. (Mr. MacKenna): May I turn to the Replacement Reserve? Would you agree that historical-cost depreciation is based on the principle that the capital of a business is a given sum of money, and it is that money which has to be maintained intact? Do you get that clear?—Yes, perfectly clear. I think that is right.

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2831. Would you agree with me that this purpose of maintaining money capital intact is achieved, according to the historical-cost depreciation method, by amortising the historical cost of the fixed assets less their residual scrap value, if any, over their useful lives? That is how it works?—Yes, provided you do not make any losses in between-times.

2832. Would you agree with me that replacement-cost depreciation, on the other hand, is based on the principle that it is the real and not the money value of the capital which has to be preserved?—Yes.

2833. In times of stable prices there will be no difference between the amounts to be provided whichever of the two bases is adopted?—I agree.

2834. But in times of rising prices larger sums will have to be provided in order to preserve the real value of the capital than are required to preserve its money value?—That I agree.

2835. Would you also agree with me that, in deciding which method of depreciation should be adopted, it is relevant to consider whether the undertaking is financed by Loan Capital or by Share Capital?—No.

2836. I suggest that if the undertaking is financed by Loan Capital, without any provision in favor of the lender in the nature of a gold clause, then the capital has no value other than its money value. You remember we have been distinguishing between money value of capital and real value, and I am now suggesting, bearing that distinction in mind, that if the undertaking is financed by Loan Capital, without any provision in the nature of a gold clause, then the capital has no value other than its money value?—Are you speaking of the Loan Capital or Capital Assets?

2837. The Loan Capital?—Then I have not got this quite clear. When you say it has no value other than its money value, do you mean its nominal value, its market quotation, or which?

2838. If the lender who has put up the capital has provided £1,000 in 1948 repayable in 1970 without any provision in the nature of a gold clause, then the capital of the business has got a money value, as distinct from a real value. Do I make myself clear?—I am just a little bit concerned about this word "value".

2839. Do not let us be confused by my wrong use of a word. In the illustration which I have given that which is the capital of the business is the £1,000, which remains £1,000 whatever may happen to the value of the money between 1948 and 1970?—Oh, yes.

2840. In that case would you agree with me that the interest of the lender requires no more than that that money value should be maintained?—I think the lender would like to see his investment preserved in real terms, but I assume his agreement will be that he is to be repaid at some future date a certain sum of money, a number of pounds whatever the pound is worth.

2841. And his interest requires no more than that the money value of the capital should be maintained, because that is all he will get back?—Yes.

2842. I think you have already agreed with me that for that purpose historical-cost depreciation is adequate?—I have not said anything of the sort.

2843. I thought you had answered me before that to maintain the money value as distinct from the real value of capital, depreciation on historical cost was adequate?—I see what you mean, yes. That was the question I answered.

2844. Where the capital is, on the other hand, Share Capital, the interest of the shareholder may be said to require that the real value of his investment shall be maintained. Would you agree with that?—I should have thought that the interest of the shareholder was, in a sense, rather the same as that of the holder of Loan Capital, that he wants to get a dividend and he wants to have the dividend continued year in and year out.

2845. The person who has lent £1,000 at a fixed rate of interest repayable in 1970 is merely entitled to get his £1,000 in 1970, and 3½ per cent.—that is £35 a year—in each of the intermediate years, whatever may happen to prices or the value of money in the meantime?—Yes;

the 3½ per cent. is the very important item, which the borrower has got to earn.

(President): That is what is troubling me in your question, Mr. MacKenna. You talk about the interest of the lender, but it would make Debenture Trustees very simple if the lender did not require any stipulation as to the activities of the company. The interest of the lender, after all, even on Loan Capital, is that the company in its activities shall remain sufficiently prosperous to pay his prior charge.

2846. (Mr. MacKenna): Yes, necessarily, of course, I am simplifying, as I think Mr. Fay's illustration of the £1,000 does, perhaps, simplify matters. All I am seeking to do for the moment is to see whether Mr. James will agree with me that the interest of the lender, where there is no gold clause but a fixed interest provision, is substantially different from the interest of a shareholder. In the one case the interest of the lender may be said to be sufficiently protected so long as the value of his capital is maintained, the £1,000 which he has lent, and while he gets his interest of 3½ per cent., but in the other case, perhaps, something more is required. (To the Witness): What I am suggesting, Mr. James, is this, that in the case where the undertaking is financed by Share Capital, then the shareholder may reasonably expect that the real value of his investment will be maintained, as distinct from the money value. Have I made the distinction clear?—Yes, you have made the distinction quite clear. The lender of Loan Capital simply expects a flat rate of interest on that capital and his money back.

2847. And he does not get anything more back because the value of money has fallen between the date of his lending the money and the date of the maturity of the loan?—But, of course, he has to have the interest which he is to have.

2848. He has got to have the £35 a year?—If you are suggesting that the holder of Equity Capital—and I take it we are talking about Equity Capital and not Preference Capital?

2849. I had principally Equity Capital in mind?—He would expect to have the value of his share rising in sympathy with the depreciation in capital.

2850. That really is saying, in other words, that you will expect the real value of his investment to be maintained, as distinct from the money value?—I think he would.

(President): Or, at any rate, he would hope.

2851. (Mr. MacKenna): For that purpose in times of rising prices historical-cost depreciation will, of course, be inadequate?—It would be inadequate in either case, because if the owner of Loan Capital is to continue to receive his interest year by year, that interest has got to be earned, and that means that, if the assets which are earning that interest wear out, they have got to be replaced and, unless something else is going to be put in front of Loan Capital, he has got to see that during the operative life of the assets provision is made to replace them.

2852. Do not think I am overlooking the fact that during the life of the loan it may be necessary, if you do no more than provide historical depreciation, to borrow further sums, I am not overlooking that at all; but for the moment all I was seeking to do was to get your agreement to the distinction between Loan Capital and Share Capital from this point of view?—Yes.

2853. Would you agree with this, that if you get a business financed by Loan Capital, and if in times of rising prices you provide depreciation at replacement cost, the business will be in a stronger financial position than it would have been if prices had remained stable?—That I do not appreciate.

2854. The reason I suggest that to you is this, that if you provide depreciation at replacement cost, you will thereby build up, in addition to the sum required for maintaining the money value of the capital, a reserve?—Yes, against which you have commitments.

2855. That is a reserve which would not exist if prices had been stable?—Because the commitments did not exist. I do not think you have strengthened your financial position, because you have more money and more liabilities.

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2856. You say "more liabilities". By "more liabilities" you mean you will have to pay more when you come to replace the assets?—Yes, because of your assumption that this owner of Loan Capital is expecting to receive his interest year by year, and, as I said just now, it has got to be earned.

2857. To help me in this discussion I have prepared an Exhibit WHL 6, and I want to consider, with your help, the illustrations which have been given in that Exhibit. The nature of this table is very different from the others. The others are factual, based upon the accounts of the undertaking, and these are illustrations using hypothetical figures. May I, first, just read the note to the examples: "These examples except for Example 1 which assumes stable prices throughout are based on Mr. Fay's illustration of a bus which originally cost £1,000 and, as a result of 100 per cent. rise over ten years, will have to be replaced at a cost of £2,000, it is assumed that thereafter prices remain stable. For the sake of simplicity these examples ignore 'back-log', technological improvements and other important matters." So I may see whether we understand this in the same way: By "back-log" I understand this, that a back-log may arise if you are providing depreciation on replacement costs if there is a rise in replacement costs during the life of the assets and if the replacement provision has not been invested in other assets whose real value rises with the rising costs. Do I make myself clear?—Yes.

2858. Is that your understanding of back-log?—No, but for the purpose of this argument I am willing to accept that translation. What you are saying, to make sure I have got it in my mind, is that you are providing on replacement prices and each year you provide the amount appropriate to that year, but you make no attempt to catch up with the under-provision of earlier years.

2859. Quite. We have also ignored technological improvements, such as if the new bus were more efficient than the old financial position of the undertaking would, to that extent, be better than it was when the original bus was acquired, but we have ignored that?—Yes.

2860. And we have ignored what are described as "other important matters". I suppose an important matter would be the earning of interest on the depreciation provision if it were invested. That would be the kind of thing which we have also ignored for simplicity's sake. The first of the illustrations is headed: "Historical Cost Depreciation. Stable Prices." The first example is this: "Year 1 Loan Capital £1,000 Bus £1,000, Year 10 Loan Capital £1,000 . . . Depreciation £1,000", and on the other side of the sheet bus, £1,000, and cash, £1,000. Year 11 the Loan Capital is now £1,000, and the new bus has been bought for £1,000, and stands at £1,000 on the other side of the Balance Sheet. That illustrates the position, does it not, where you provide historical-cost depreciation and where prices do not rise, but are stable?—Yes.

2861. And where your capital is Loan Capital. It is pointed out in the notes that, on this footing, no increase in capital is needed, the depreciation has provided for replacements. As to overheads, it is pointed out there will be no increase in interest on buying the new bus, and no increase in depreciation charges. That will be right, will it not?—Yes.

2862. The next example we have taken is where prices are not stable, but are rising prices. Again, we have taken the case of Loan Capital and the case where historical-cost depreciation is being provided: Year 1 Loan Capital £1,000, bus £1,000, Year 10 Loan Capital £1,000, Depreciation £1,000, and on the other side of the sheet that is represented by the bus, £1,000, and the cash £1,000. Year 11: Loan Capital £2,000 and a new bus which stands at £2,000. What has been done there is that the Loan Capital is being increased at the end of the tenth year for the purpose of enabling the undertaking to buy the new bus which will now cost £2,000?—Yes.

2863. The note points out that if that is done, that is to say depreciation at historical cost, the capital will have been doubled, but the assets will still cover the Loan Capital. As to overheads, from Year 11 the interest charged will be double and the depreciation charges will

be double. That is right, is it not?—Yes. I cannot think that the holder of the Loan Capital will be very interested in having a bus, he wants interest.

2864. Of course. Before I pass from the second example, there should, in the ordinary way, be no difficulty in raising the additional Loan Capital, because the higher value of the new bus, £2,000, will provide cover for the additional loan. Taking this very simple example, that is right, is it not?—I agree.

2865. It is also right that the real weight of indebtedness would be greater in Year 11 than it was when the original asset was bought. The real weight of the indebtedness, the value of money having changed in the interval, having halved as we are assuming, the loan burden, which will now stand at £2,000 in real terms, is the same thing as a loan burden of £1,000 when the value of money was twice as great?—Yes. The business has got to extract twice as many pounds from its customers to pay the interest, but the pounds are worth half as much.

2866. It has got to serve the new capital. Example 3 we have taken upon the footing of replacement-cost depreciation.

(President): This is a fortunate undertaking in Example 2 which has not to come to a Transport Tribunal.

2867. (Mr. MacKenna): All the assumptions which are made are of the simplest kind, Sir. (To the Witness): Example No. 3 is an undertaking providing replacement-cost depreciation, but with 100 per cent. Share Capital. Year 1: Share Capital £1,000, bus, £1,000. Year 10: Share Capital £1,000, Historical-Cost Depreciation £1,000, Replacement Cost Reserve £1,000, and on the other side bus at £1,000 and cash £2,000. Year 11: Share Capital still £1,000, and there is a reserve of £1,000 set off against a new bus of £2,000?—Yes.

2868. The first note is that the Share Capital has been maintained in "real" terms. The depreciation has provided for cash replacement. There will be a surplus representing the money reserve required to maintain the capital in "real" terms. Then there is a note that the dividend will probably be increased for Year 11, and that depreciation charges will have been increasing up to Year 10 on this basis, but will be stable thereafter if prices remain stable. Here it is assumed, as you see, that the business is financed entirely by Share Capital and that replacement cost depreciation has resulted in the creation of a money reserve equivalent to the amount required to maintain the share interest in real terms, but cash has been provided for replacement?—Yes. I do not follow why the dividend will probably be increased for Year 11.

2869. The value of money is changing and the shareholder, the real value of whose investment has been preserved, will probably expect to get a larger dividend?—This seems to me to be rather a curious state of affairs, because we change our approach when we get to Year 11.

2870. I quite agree that it is over-simplified and that it is quite likely the shareholder would be getting something more before the eleventh year?—I think we want to be quite clear about this, because note 3 (a) is stated as a possible fact which may affect this argument, but what happens here is that if the bus operator goes on charging the same prices in Year 11 as he did in Year 10 there will be precisely the same dividend in Year 1.

2871. You are quite right to point out that the change in the dividend rate would, no doubt, come sooner and he would not wait for ten years, and that the charges which would be made to the public would take account of the money which was needed to provide the extra dividend which the shareholder would reasonably require?—What I am not understanding is what the change in the dividend has got to do with this particular calculation.

2872. I do not think it has very much to do with the calculation?—Then I am not expected to concern myself very much with it?

2873. No, I do not think you need. It is pointed out as a fairly obvious fact that the rate of dividend would, no doubt, sooner or later increase?—It is not fairly obvious to me, you see.

2874. Example No. 4 is again replacement-cost depreciation, and here we have taken a case where the Share Capital is 50 per cent. of the capital, and the Loan Capital is also 50 per cent. Applying replacement-cost

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depreciation charges to 50 per cent. of the assets, we get these figures: At the outset Share Capital £500, Loan Capital £500, Bus £1,000. Year 10: Share Capital £500, Loan Capital £500, Historical-Cost Depreciation £1,000, Replacement Cost Reserve £500, because we have only charged it in respect of half the assets. You follow that?—Yes. I find this a very odd operator. He cannot make up his mind whether he wants historical-cost depreciation or replacement reserve.

2875. I am not suggesting that this example could be worked in real life, but I am giving you figures—which I think you are understanding—to show what the effect will be on the Balance Sheet if you provide depreciation to that limited extent on the replacement basis. The effect of it appears at Year 11, when the Balance Sheet will read: Share Capital £500, Loan Capital £1,000, Reserve £500, and on the opposite side a new bus £2,000. The first note is that the Share Capital has been maintained in "real" terms. The Loan Capital has been increased, but is still 50 per cent. of the assets. There is a surplus of £500 representing the money reserve required to maintain the capital in "real" terms. You follow the figures, do you not?—I am afraid I do not.

2876. May I try and help you. The assumption is that depreciation on replacement cost is going to be charged on 50 per cent. of the assets and historical-cost depreciation is going to be charged on the balance of the assets. The effect of doing that will be that when you come to Year 11 you will have to borrow another £500, thereby increasing your Loan Capital from £500 to £1,000; but the total effect would be this: Your Share Capital value will have been maintained because there will be a reserve of £500 representing the reserve required to maintain the £500 Share Capital in real terms and the Loan Capital of £1,000 will still represent 50 per cent. of the assets and no more, as it did at the beginning. Do you follow that?—Yes, I see. Again, Note 3 (b) is something which I do not think emerges from the example, but we discussed that on the previous occasion.

2877. Then Example No. 5 takes 50 per cent. Share Capital and 50 per cent. Loan Capital again, but here we are assuming that replacement-cost depreciation is charged on the whole of the assets. You start with a share capital of £500 and a Loan Capital of £500 and a bus £1,000. Then in Year 10 you have Share Capital £500 still, Loan Capital £500, Historical Cost Depreciation £1,000, Replacement Cost Reserve £1,000, and on the other side a bus £1,000 and cash £2,000. Year 11 you have Share Capital of £500, Loan Capital £500, and the reserve of £1,000, balancing with a new bus of £2,000. The note to that is that the Share Capital has been more than maintained in "real" terms. Cash will have been provided for replacements. The Loan Capital will be 25 per cent. of the assets compared with 50 per cent. of the assets at the time of the original purchase. There will be a surplus equal to twice the amount of the Share Capital. You follow the effect of those figures?—Yes.

2878. The last example of all is replacement-cost depreciation applied to an undertaking with 100 per cent. Loan Capital. Year 1: Loan Capital £1,000, Bus £1,000. Year 10: Loan Capital £1,000, Historical Cost Depreciation £1,000, Replacement Cost Reserve £1,000, offset by a bus £1,000 and cash £2,000. Year 11 you have Loan Capital £1,000, Reserve £1,000, balanced by a new bus £2,000. The note is that there is no Share Capital that has to be maintained intact. Depreciation provides for the full cost of replacements. There is a surplus of £1,000 equivalent to the Loan Capital, compared with no surplus at times of stable prices. You follow the effect of those figures?—Yes. In Year 11 the operator will be able to go on providing the services at the same fare level as in Year 10 and will continue to bear the interest on the Loan Capital.

2879. Because on this example he will put up the fares at an early stage in order to provide this reserve of £1,000 to finance the purchase of the new bus?—He will have made his customers pay the true value of the service in each year of the life of the bus.

2880. I follow what you are saying, and I will come back to it in a moment, but for the moment all I want you to do is to compare Example 6, which is 100 per cent. Loan Capital with replacement cost provided and depreciation provided in times of rising prices, with

Example No. 1, which is, again, an undertaking financed entirely by Loan Capital providing historical cost depreciation in a period of stable prices?—Yes. The difference between them is, of course, the price levels.

2881. The difference is this, is it not, that in Example 6 at the end of the tenth year, because replacement-cost depreciation has been provided in a time of rising prices, the undertaking is in a stronger financial position, having now got a reserve of £1,000, than it would have been in a time of stable prices providing historical-cost depreciation?—Not a bit of it. It has got one bus which goes on earning its keep in either case.

2882. On the other side of the Balance Sheet you have Loan Capital £1,000 and Reserves £1,000, but perhaps all these matters are just bookkeeping?—No, I do not think so. It is wrong, surely, to say that the undertaking in Example 6 is in a better financial position than the undertaking in Example 1. In fact, I would say that the undertaking in Example 1 was in the better financial position, because it was living in a world of stable prices.

2883. I quite understand that if you are looking to the future and assuming that in one case the undertaking will be living in a time of stable prices and in the other case prices will be fluctuating, the first is the luckier of the two undertakings: But all these examples are upon the assumption that after Year 10 there is equality between each of the examples and that they will all be in a time of stable prices?—Yes, but you did say that the undertaking in Example 6 was in a better financial position than the undertaking in Example 1. I cannot agree with that. As I say, they have each of them one bus which enables them to earn their living and pay the interest on the capital, and that is all it enables them to do. In the case of the undertaking in Example 6 the fare level will be higher than in the case of the undertaking in Example 1, but that is all there is to it.

2884. You say "that is all there is to it", but I think Mr. Lawson will take you up on that?—I am sure he will.

(Adjourned for a short time.)

2885. (Mr. MacKenna): At the adjournment, Mr. James, I was asking you, on Document WHL 6, to compare Example 6 with Example 1?—Yes.

2886. This is the position, is it not, that on Example 6, where in the case of the 100 per cent. loan capital replacement cost of depreciation has been provided at a time of rising prices, the position at the beginning of Year 11 is that the undertaking has got a bus which at then values is £2,000 money value?—Yes.

2887. That is a debt which at money values is £1,000?—Yes.

2888. That is the position on Example 6. The position on Example 1 is this, is it not, that where historical cost depreciation has been provided at a time of stable prices, at the end of Year 10 or the beginning of Year 11 the undertaking owns a bus which at money values is at that time worth £1,000 and has a debt which at then money values is worth £1,000?—Yes.

2889. The question I am putting to you is this: Is not the financial position of the undertaking in Example 6 stronger than the financial position of the undertaking in Example 1 at the end of the year where the debt is 100 per cent. of the value of the bus, as compared with Example 6, where the debt of the undertaking is only half the value of the bus?—I find it very hard to say that.

2890. Just try to understand it, Mr. James?—As I understand it, Example 6 has had to increase its fares through from 1 to 10 in order to enable it to provide depreciation on replacement prices; it does not follow that it has been able to pay any more on the interest on its capital than Example 1, and the loan capital is just worth what you can get in terms of continuing interest out of it.

2891. I do not quite follow that. Looking at the position of the undertaking as a debtor, by the beginning of Year 11 is it not in a stronger position when its debts are counterbalanced by its assets, where they are worth twice the debt, and compared with Example 1 when the assets are of a value which only equals the money debt. It is as simple as that, is it not?—I do not think it is in a stronger position; I cannot see it.

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2892. Is this what you are saying, that you are in no stronger position if your debts are 100 per cent. of the value of your assets than you are if your debts are 50 per cent. of the value of your assets?—No, I do not think I could say that.

2893. You would not think that either?—But I would like to add this, that both of the companies are in a position, as I see it, to earn enough profits to pay the interest on the capital invested in the undertaking, and in that sense I think one would be in exactly the same position as the other except that the one, as I said this morning, is in time of stable prices.

2894. Yes; that is assuming that stable prices are going to continue in future, and in Example 6 that stable prices are not going to continue in future, and I told you that the same assumption is made on both tables?—Yes, but you used the word "fallacy", and there is a fallacy in trying to compare Example 1 with Example 6, because they have existed in different worlds, one in a world of stable prices, and the other—.

2895. But if the prices are going to be stable, the position is the same as to the future, is it not?—Yes; that is why I said that one was not the same as the other.

2896. But so far as the business is concerned, it is in a stronger position where its debts are half the assets than where its debts are equal to the whole of its assets?—Yes, I think that must be; one can pay out twice the amount the other can.

2897. This argument we have been considering together this morning is the same, is it not, as the argument referred by Sir Reginald Wilson in his address to the Municipal Treasurers and Accountants, which is reported at page 156 of these proceedings, at Question 1893: it was an address from which Mr. Rippon quoted, and you will find the quotation at the bottom of the right-hand column of page 156, which is in Day 7 of these proceedings, in the very last sentence: "It is also possible to argue, where the business is financed entirely by loan capital and there is no equity in private hands, that the depreciation charge should be related to historical cost and the interest charge related to the borrowings outstanding (e.g. also to historical cost, as it were)?"—Yes.

2898. That is the argument we have been considering together?—Yes; he says that that is one of the arguments you can make, and that is the one we have been considering.

2899. What would be the answer to this question: In whose interest do you say the British Transport Commission ought now to provide this depreciation reserve in order to pay for the assets which will have to be replaced at higher prices in the future?—In the interest of the public in the future, and in the interest of the nation, which after all must be the only equity holder in this undertaking.

2900. Let us take the interest of the public; what consideration of equity makes it right that the public today should pay fares which are providing the capital which will be required at some future date, compared with making the public at the future date provide what is required?—Surely it is only right, if you have an undertaking which must for this purpose be considered to have a perpetual life, to put back into it each year the substance of the undertaking that you have used up in running it during that year; that is the argument for replacement prices.

2901. And the counter argument is this, is it not: If you make the public of today serve the capital which is required today to run the business you are saying that, all that can be fairly asked of them, leaving it to the future, is to provide what capital is required for the future?—But that is the whole point; it is the argument "Let's be happy today, and let the future take care of itself".

(President): That argument would be equally applicable, would it not, Mr. MacKenna, against making any depreciation provision at all?

(Mr. MacKenna): No, Sir; it would start on this assumption, that the shareholders of today are to provide for the capital which has to be provided for the facilities they are enjoying; that includes depreciation charges related to the money preservation of that capital. Then when the future comes, if more money has to be raised to

enable the building to be continued, the passengers of the future must provide for the service of that capital. I think Mr. James recognises that there is nothing inconsistent in what I am putting; I am not putting two points each inconsistent with the other.

(President): But why should not the passenger of today be completely indifferent to the question of whether there should be a bus at all of any sort tomorrow?

(Mr. MacKenna): They are selfish to that extent, Sir; they are selfish to the more limited extent of being prepared to provide what is needed to serve the capital which has been provided for them, but if more capital has got to be provided for another public in the future, then that public must use that.

(President): Leave out the phrase "serve the capital", for the moment. In the examples you are saying that it is reasonable, and not more selfish than is unreasonable, to look to the future to provide half a bus, but not to expect the passengers of today to provide a whole bus for the future; is that it?

2902. Mr. MacKenna: Certainly; I say there is no equity which requires the passengers of to-day to pay by way of fares the sums which will be needed at some future date to pay for a bus which is more expensive than the bus which is serving their needs at the moment. That is the counter argument, and I think that Mr. James recognises that that is an argument which could be raised consistently, although he prefers to make the passengers of to-day save enough money to pay for the bus in the future. Is that what you are saying, Mr. James?—Why I do not understand it is this: Let us go back to our 10-year bus; let us go back to this simple thing that we have been looking at, somebody with a fleet of ten buses bought in Years 1, 2 and 3, right up to Year 10. Every year they have to replace one of those buses; I do not think anybody would complain if I charged the cost of that replacement bus into revenue in the year I replaced it, and that is the whole theory. I cannot think why anybody complains about it; it seems so obvious and sensible.

2903. I quite understand that that is your point of view; I have been putting other points of view, submitting with respect that they are equally sensible, and perhaps one which is preferable to be adopted at a time when by raising your fares you may lose passengers you can ill-afford to lose?—This brings us back to something which was discussed with Mr. Winchester, namely that this is not a good time to increase fares. But what is a good time? Surely you must deal with the situation as you find it at any point of time. It is easy to say that you will put it off until to-morrow and that you will not bother about replacements, but surely now is the time.

2904. Yes, if you assume that the present must provide the cost of providing this bus for the future, which we assume is going to cost very much more than the bus they are using at the present time?—Yes, but reducing it to its simplest terms, as I think I did just now, the thing is so obvious to me that I am quite unable to appreciate your point.

2905. Very well; I take it you consider that there is nothing whatever to be said in favour of the argument mentioned by Sir Reginald Wilson when he was addressing the Treasurers?—I do not think Sir Reginald thought much of it.

2906. He was able to speak for himself; certainly his own argument?—?—He neither adopted it nor disowned it; he merely mentioned it as an argument.

(President): The following passage appears at Question 1896 in the transcript, Mr. MacKenna.

2907. (Mr. MacKenna): Yes, Sir; may I read it: "There can be little doubt that this last basis"—that is the one he had just been considering—"is cheapest to the public who are paying fares at the moment, but whether it is prudent in the national interest, or fair in the interests of passengers to come, is altogether another question". (To the Witness): You say that there is really no question about it at all, that it is unfair in the interests of passengers to come that this extra money should not be provided by the passengers at the present time?—I do indeed.

2908. And you say, as I follow it, that the national interest requires that the money should be provided now in advance by the public of to-day?—Yes. We have got

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to maintain the body of this undertaking; we ought to maintain it out of current revenue.

2909. It is easy to say these things, but what national interest is offended by the Transport Board coming to the market to raise some money at a future date when they are able to show that the assets which they will acquire with that money will be worth in terms of money very much more than the assets originally acquired, so that the real weight of the loan will be exactly the same after the new borrowing as it was originally?—I think there is nothing offensive in that at the time at which it arises; the offence is created by the sloppy approach to your financial obligations during the period in which you have the old assets in use; that is to say, by not providing for their replacement.

2910. So that I may follow your argument, what you are saying is that it is really offensive to the national interest that you should not have provided the money in due course?—Yes, I think it is.

2911. And I am asking you in what way it is offensive to the national interest that the money market should be asked to provide a loan which will leave the total indebtedness of the undertaking to the market exactly the same as it was in the beginning?—But you know, it will not; it will double it.

2912. To take Mr. Fay's example, £2,000 in 1960 money will be the indebtedness of the undertaking in relation to prices which are now twice what they were at the earlier stage, in order to get a loan at the earlier stage of £1,000?—That is not what you put to me; you said that it will leave the total amount of the indebtedness unchanged.

2913. I meant to say that the real value of the debt will be the same after the new borrowing to meet the rising prices in the first instance?—But I do not think the public does these conversions in its own mind; it deals with a pound as a pound when it comes along. But I will say that if you have not provided sufficient sums out of revenue towards your replacement during the life of an asset, there is nothing offensive in rectifying the fault when the time comes—

2914. Of course, but I think I have put my point to you. Do you remember an extract from Sir Oliver Franks' report which has been referred to once or twice in this connection; I think it is reported at Day 1, page 19, and I want your help about a sentence in that. It is in the bottom right-hand corner of the page, in the second last sentence: "What would be thought?", said Sir Oliver Franks, "of the future of any private enterprise that failed to provide even for the maintenance of capital?" That was the question he asked after arguing in favour of the replacement cost basis for nationalised undertakings?—Yes.

2915. I think you have already agreed about this; let me see that I have got it right: If the capital is loan capital, you do provide for its maintenance by historical cost depreciation?—In money terms, yes.

2916. And does it not appear as if Sir Oliver Franks in this passage has overlooked the difference between nationalised undertakings financed by loan capital and private enterprises financed by share capital?—We are in trouble here with this word "capital", just as this morning we were in trouble with the word "maintenance". As I read what he says, he is talking about the physical capital of the undertaking; there is no other sense in which he can be using that word. If he is talking about the money capital—

2917. If he is, he is overlooking the essential distinction; if he is talking about physical assets, you think that what he says can be supported?—Yes, but I can see what was in his mind. I feel certain that he is talking of physical capital.

(President): He talks about "capital equipment", and "using up capital", which must refer to things, not symbols, Mr. MacKenna.

2918. (Mr. MacKenna): Yes, Sir, I follow the distinction. (To the Witness): I have read, and I am sure you have too, the long discussion on depreciation which appears in the Herbert Report. You have read it, of course?—I have read it, yes.

2919. I think it is right, is it not, that the Herbert Committee do not mention the matter of loan capital in the discussion on depreciation?—I really could not say, but if you tell me that is so, I accept it.

2920. But you do not yourself recollect any reference to it?—No, I do not.

2921. So if there be validity in the distinction I am making, it would appear as if the Committee responsible for that report had not adverted to a distinction if they had not mentioned it?—I am sorry—

2922. If there is validity in the distinction I am making between loan capital and share capital, it would appear that the Herbert Committee had not adverted to the distinction which is relevant to the topic under discussion?—I think so, if we are talking about replacement of wasting assets.

2923. I follow; that is all I wanted to ask you on the subject of depreciation of replacement reserve—

2924. (President): Before you go to another matter, Mr. MacKenna, I know nothing about the Electricity Board, but their money capital is loan capital, is it not?—I think it is, Sir.

2925. It would be very odd if the Herbert Committee has not adverted to it in their minds, even if they did not refer to it expressly in these particular paragraphs. They had discussed the financial position of the Electricity Board at great length, had they not?

(Mr. MacKenna): The point I was seeking to make is that it would appear that the Herbert Committee did not advert to this distinction when they were considering depreciation, and the inference I am drawing is that they had overlooked the distinction which in this connection was of very great importance.

(President): But I was suggesting for your consideration that it would be very odd if they had overlooked it when, in a very long passage in their report, they had discussed a question which was only relevant on the view that the capital was loan capital. It may be conceivable when they wrote their paragraphs about depreciation on replacement cost that psychologically they had forgotten it, but on the whole it is unlikely, is it not?

(Mr. MacKenna): If I may say so, there is nothing inconsistent in the Committee recognising that the capital is loan capital and discussing that matter in some other context, and then when they came to consider depreciation, not adverted to the situation that the capital is loan capital, because they had overlooked the importance of the distinction between loan capital and share capital in the matter of depreciation. No one would pretend that they did not know that electricity was financed by loan capital—that would be absurd—but it would not be so absurd as to suppose that they had discussed depreciation overlooking a matter which is of very real significance in that context. All I am suggesting to Mr. James is that it is perhaps surprising that if the matter were in their minds as a relevant matter, they had not thought it worth while mentioning it, and the inference I was going to ask you to draw at the end is that they had frankly overlooked something which is of importance in this context, but not that they overlooked that the electricity industry was financed by share capital in 1954, or whenever it was that the report came out.

(President): In other words, so far as their observations in Chapter 15 were directed to the question of depreciation, they were irrelevant as applied to the electricity undertaking?

(Mr. MacKenna): "Irrelevant" as a description of the whole chapter would be ruder than I would like to be to them, but they were overlooking a vital distinction.

(President): And therefore they were dealing with considerations which did not apply to the particular undertaking on which they were reporting?

(Mr. MacKenna): They were not dealing with that which was really important on a question of depreciation—they were not adverted to it—namely that it was loan capital and not share capital, and it is not to my mind too impossible a view to ask you to take that this Committee, reviewing here the whole of the matters of the electricity industry, when they came to depreciation, did not advert to a matter which my accountant will tell you

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is in his view of prime importance which he thinks must have been overlooked by the Committee that dealt with depreciation. But there it is, Sir; perhaps that is not a matter for Mr. James, but it is in my submission surprising, if they had this point in mind, that they do not at least discuss it for the purpose of saying why it was not important.

(President): The question of the surprise depends upon the importance of the distinction. It might be put in another way; it is possible to say that the fact that they did not expressly refer to the distinction means that they had thought about the topic, but that they had thought the distinction was of little value.

2926. (Mr. MacKenna): If they did reach that conclusion, and if you really think it is the right conclusion, that would explain it; but if at the end of the day you think there is a strong argument to the contrary, and that they did not mention it, the argument that they overlooked it becomes the stronger. (To the Witness): There is no doubt that Sir Reginald thought it was an arguable point when he addressed the Treasurers?—I agree that he mentioned it as an arguable point.

2927. I come now to the last matter I have noted; that is general reserve. I think you have said that a general reserve is required first because of the deficits incurred in the past?—No, I did not say that at all. What I said was that we required something over and above our finance charges and over and above a provision for replacement for the writing off of deficits or for general reserve. I did not say it was required because of deficits.

2928. I have not quite followed that. The £2m. has to be provided over and above the sums we are considering; is that what you say?—Yes.

2929. Is it any argument in favour of that sum being provided for general reserves that in your view large deficits have been incurred in the past?—It is one of the things we have to deal with. I think this point was put by the President earlier, and I think I said that we should still need those reserves even if there were no deficits.

2930. I follow the question and I remember the answer, but so far as you or anybody else relies on the deficits which have been incurred in the past, at that point it will be relevant to compare Exhibit WHL 1, with the apparent deficits shown by that table of £2.9m. over a period of ten years, with the Commission's figure of £15m.—It would.

2931. And if the right figure were in the neighbourhood of £2.9m. incurred over a period of ten years, I do not think you would contend that that was a serious deficit over that period?—I should be delighted if it were the deficit over ten years, but I should still want £2m.

2932. And as far as the existence of a deficit is used as an argument in favour of £2m., you would not think it was a substantial argument if the true deficit was £2.9m.?—No, but I say that on the basis of the tables you have put in, the true deficit would be £11m.

2933. If we make the allowance for maintenance equalisation, you think we should have to add £4.1m. to £2.9m.?—Yes, and take out £2.6m. for surplus property income, and make a number of other adjustments.

2934. (President): It is surplus fund income, is it not—not surplus land?—I am speaking of surplus property which is brought into this statement—income from surplus property.

2935. (Mr. MacKenna): You mean surplus lands?—Yes; I am sorry.

2936. I brought them in, and I think you agreed that on my approach I was entitled to do that?—Yes, but I am saying that if you put your statement right, they will show a deficit of £11m.

2937. I am trying to test that; I quite understand how you increase it to £7m. by claiming that I have wrongly taken out the £4.1m. with which you charge revenue in respect of maintenance equalisation, but I am not sure where you get the other £4m. from?—I see. I am taking out lines 4, 5, 6 and 20 of Exhibit WHL 1.

2938. Line 4 is surplus lands; I thought you had agreed on Friday that according to my approach, having charged myself with the interest on the capital required to pay for these lands, as it were, I am entitled on the upper half of the sheet to bring in something in respect of revenue?—I am sorry; we are misunderstanding one another. I am not challenging the figures in that table on that approach; I am merely saying that if the approach were right there would be a very different answer.

2939. If I were using the Commission's approach, the figure would be very much more; that is what you are saying?—Yes, that is what I am saying. I am sorry if I misunderstood you.

2940. (President): What was the fourth item you mentioned; was it Item 20?—Yes, Sir.

(President): That is the tax.

2941. (Mr. MacKenna) (To the Witness): That is something which we have not dealt with yet?—Yes.

2942. But you are, as it were, anticipating the effect of Mr. Winchester's evidence that that will knock out line 20; is that right?—Yes.

2943. You are probably right about that; that will be the point of the evidence. The £2m. on your view is required to provide a certain measure of self-financing; is that right?—Yes.

2944. Would you agree that as to the provision of new capital it is really a political decision whether the Government will provide adequate capital for London Transport through the Commission, or whether it will insist upon the whole or part of that capital being obtained by higher charges to the public?—I suppose that is right.

2945. It must be so?—I am not thinking here, when I talk about a certain measure of self-financing, of major development schemes; I am thinking of the constant need to invest sums of money into an undertaking merely, to keep it up to date. That takes money, and you should not have to inject fresh capital into the undertaking for that.

2946. It is just keeping it ticking over?—Yes, in an up-to-date condition.

2947. In an improved state of affairs?—In a modern state of affairs. It is important to understand that.

2948. I gathered that the only other matter for which you were saying that a general reserve should be provided is as a cushion for unforeseen falls in revenue or unforeseen costs?—Yes, again the necessary risks of running this kind of business and the unavoidable fluctuations that you get in your earnings year by year.

2949. Would you agree that if £2m. for that purpose were to be provided—for that purpose alone—it would be really excessive?—I cannot agree that; I have asked for £2m.

2950. Yes, for this purpose, and to enable the industry to finance itself to some extent. I am asking you to assume that self-finance was not a matter which needs to be provided for in that way; if the only other matter needed was a cushion, £2m. would be excessive for that purpose, would it not?—I do not think I draw a distinction; the major need is to deal with the year to year fluctuations in this business.

2951. And again if one wants to measure what these fluctuations are, the contest is between WHL 1 on the one hand and the way in which you present the figures on the other hand?—Plus looking at the results for 1958; that is what I want to deal with.

2952. We have to build up a reserve against another London strike; is that right?—Yes. We have no equity capital or ordinary stockholders in this undertaking; fixed interest capital has to be serviced year by year, and therefore you have to have something which can absorb the bad years out of the excess earnings, if they ever happen, of the good years.

(Mr. MacKenna): Thank you very much, Mr. James; I am sorry I have been so long.

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[Continued]

Cross-examined by Mr. MILNER HOLLAND.

(Mr. Milner Holland): As far as Central Charges are concerned, as you will appreciate, Sir, I put one approach, so to speak a global approach, to Mr. Winchester, and my friend has put a specific approach to Mr. James. I am very anxious not to take up additional time; I would not put anything else to Mr. James, if you would agree that Mr. MacKenna put the specific approach and that I put the global approach.

(President): I see, although I was not aware of the event when it happened, that last Friday two tables were handed in by your clients, which appear in the print, both by Mr. Hill. They are not related to Mr. Hill's calculation of Central Charges?

(Mr. Milner Holland): No, Sir. I have some now which Mr. Hill has produced, which are merely tabular statements of figures which appear in the Published Accounts of the Commission, which I was going, if you thought it convenient, at any rate just to ask Mr. James to look at. Of course, I will not ask him to follow right through the account, but they are on tables constructed on the accounts. I will ask him first to look at them, not necessarily immediately, and to tell me if he finds the figures inaccurate. I shall not ask him to look at the approach I have put to Mr. Winchester.

(President): But are you calling Mr. Hill?

(Mr. Milner Holland): Yes, Sir, and perhaps I might just put in, so that Mr. James may have a glance at them so to speak—we need not spend a lot of time on them—some tables which Mr. Hill will speak to, relating to the global approach to Central Charges; this will be Document SWH 4—

(President): Not SWH 3?

2953. (Mr. Milner Holland): No, Sir; that comes at a slightly different point. While we are on Central Charges, that relates to Central Charges. (Document SWH 4 put in.) (To the Witness): I do not think I need ask you any question of principle on this table, but may I just quickly show you what it is, and then ask you, perhaps at leisure, to let us know if any of the figures in it appear to you to be inaccurate as figures?—I will certainly do that.

2954. The table you have in front of you is in a sense an analysis of the content of Central Charges for the ten years 1948 to 1957. Please do not feel, unless you can do it quickly, that I am asking you to verify every figure now, while you are in the witness chair, but you see that the figures are in thousands, that line 1 is the totals of interest on stock and other loans for ten years; no doubt those appear in the later pages of the accounts?—Yes; I am looking at page 22 of the 157 volume, which I think gives us the last column of this statement.

2955. Yes, but there are some later pages, are there not—they are in the 200's—in which we can find the others; it is in the Statistical Analyses?—Yes. I think you are looking for pages 256 and 257.

2956. Yes. It may be that Mr. Hill has got it—he is not able to be here to-day—

2957. (President): You have to do some adding up if you use Table 11; is that right?—Yes. Perhaps I can check the figures for you at some stage.

2958. (Mr. Milner Holland): Yes. The second item is the capital redemption figure for each year?—Yes.

2959. The third item is amortisation of stock discount?—Yes.

2960. The fourth item is stock issue expenses?—Yes.

2961. The fifth is management of stocks and loans?—Yes.

2962. The sixth item is the totals. The seventh item is "Less interest received", and item 8 therefore is a sub-total of the previous seven items?—Yes.

2963. And those are items, I expect you will agree, which relate to the provision of capital?—Yes.

2964. Then the remaining items are plainly not related to the provision of capital. They are: Item 9, Central Administration; Item 10, Staff Compensation; Item 11, Winding-up of transferred undertakings; Item 12, Profit or Loss on sale of investments; Item 13, Miscellaneous Receipts, and the last item, Item 14, shows the total of Central Charges for each of the ten years?—Yes.

2965. And, so that line 8 gives the element in Central Charges which relates to the provision of capital, we can compare that with line 14 if we want to see what proportion that bear to the total?—Yes.

2966. And you probably recognise that this bears some relation, though again for ten years, to a line of questions which I put to Mr. Winchester?—I remember the 97 per cent.

2967. Yes, and if you would be so kind as to let us know whether there are any figures on this table which appear to you to be inaccurate, we shall be most grateful?—That shall be done by the morning.

2968. If you have the time, I should be grateful if you would, but there will be a little time before Mr. Hill gives his evidence, as far as I can see. Before we leave it, the items in the bottom right-hand corner indicate the interest on advances (Special Account) which were necessary until 1957?—Yes.

2969. And we remember, from studying the tables, the total for 1957, of £66,393 in all, and £59,847 after taking out interests on advances on Special Account?—Yes.

2970. May we now have Exhibit SWH 5? (Exhibit SWH 5 put in.) Again, if you would be kind enough to help us on this table, to see if there is any disagreement upon it as a matter of fact, it is designed to show the figures which illustrate the argument which was founded on the point put to Mr. Winchester, namely, the proportion of capital invested in London Transport Executive as it bears to the total capital of the British Transport Commission?—Yes.

2971. As you see, it is again for ten years, and the first items are the fixed assets; the second item brings into account a figure for stores and materials, which I think does not appear in any table so far produced to the Tribunal. The third line adds in—I imagine you would agree correctly—the accumulated surplus or deficit in arriving at the amount of capital invested in London Transport Executive?—Correctly as a principle?

2972. Yes?—Not as a figure; I do not know this figure.

2973. Yes, I quite follow; I am not asking you to agree the figures, but I am asking you to check the figures before we use the table, so that there is no unconscious misleading of the Tribunal. Line 5 is the balance of the provision accounts, I think it should be; there were three accounts, now moulded into the maintenance equalisation account?—Yes.

2974. And line 5 is the amalgamation of the three when they were separate, and the actual figure on the maintenance equalisation account. That is what that line is intended to be, and if you find it inaccurate on that basis?—It is intended to be the abnormal maintenance account on the one hand and the assets displacement account on the other, expressed as a net figure?

2975. I thought there was a third one embodied in the maintenance equalisation account?—I am sure I ought to know—

2976. I am sorry; I have it wrong myself. It is those two which you have mentioned, so that the total—that is up to 1953?—Yes.

2977. It is an amalgamation of the two, which is the maintenance equalisation account?—I see.

2978. Item 6 is a total, taking the balance of the maintenance equalisation account out of the total capital invested, giving you a net figure for line 6, and line 7 is a mean figure between the exercise which has just been done; taking, for example, 1947, £121m. is the mean of £117m. and £125m., and £130m. is the mean of £125m. and £135m.?—Yes.

2979. So line 7 is in line with some figures we have had before, the mean of two years—

(President): I think the practice was introduced so as to confuse the lawyers, Mr. Milner Holland. It is an abominable practice to my mind, and it does not make very much difference.

2980. (Mr. Milner Holland): Yes, Sir. It is usually the other way round, but in this Tribunal it is the lawyers who are the humble people who do not understand anything at all. (To the Witness): The remaining columns dealing with the British Transport Commission as a whole; line 8 is the fixed assets total for each year; line 9 is

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[Continued]

stores and materials; line 10 is accumulated deficit, which I am afraid is always a deficit; line 11 is the total; line 12 is a deduction figure for provision accounts, now the maintenance equalisation account, and line 13 is the net figure?—I see. You have asked me if I will check these for you; I will certainly do what I can. I can check line 1; I can check line 4—that appears to be the only item of net current assets brought into the statement, but I can check it as a figure.

2981. Can you not check line 2?—Yes, I can check it for what it is, but I was wondering where the rest about net current assets were. I do not know from what I am supposed to check line 3—I see; it is on the next page. I am not given any material upon which to do my checking of line 5.

2982. Perhaps Mr. Hill will have to speak about that without having the advantage of its having been checked?—Line 6 is arithmetic—

2983. You recognise the last figure in line 5; that is the figure which Mr. Winchester gives, and I understand it was supplied by you?—Yes, I accept that figure.

2984. If you can arrive at that one, can you not arrive at the others?—Not in the way it is done here.

2985. I am not going to ask you to check anything which is not readily checkable; I suppose we may take it that lines 8 and 9 are readily available?—Yes.

2986. Line 10—?—That is probably more easily checkable than the London Transport one in line 3; I will look at that. Line 11, yes; line 12, yes; line 13 is arithmetic.

2987. And line 14 is the means?—Yes.

2988. And line 15, of course, is carried over from the previous table, the total of Central Charges, and line 16 is just mathematics?—Yes. We will check what we can on that, but it will not be a 100 per cent. check.

2989. The only thing that gives any trouble is line 5, is it not?—And line 3.

2990. That is a point of argument; we will come to that in a moment?—Yes, that is why I cannot check it; I can only check it as arithmetic.

2991. It follows from certain assumptions which you probably do not make?—It follows from the assumptions on the next page.

2992. Let us get this clear: Line 3 is your Exhibit PJ 14, with different figures for Central Charges?—And something else, I think; if I may, I will wait until we come to that.

2993. I do not want to leave it for the moment; I want to get it quite clear as to what this exercise involves. You have put in as Exhibit PJ 14 what you say is the accumulated deficit of London Transport?—Yes.

2994. And that table PJ 14 presupposes certain debits to London Transport for contribution to Central Charges?—Yes.

2995. Which, of course, is a matter of debate between the Commission and the Objectors?—Yes.

2996. But I think you may take it that over the page—we shall come to that in a moment, but not immediately—is the same, except for one very small item, as your PJ 14, with a different figure for Central Charges?—I think it is.

2997. There is only one other small item which is not in your PJ 14?—That is right.

2998. Perhaps we might look at it. If you will turn over to the second page of this exhibit, line 17 is the PJ 14 figures for net receipts?—Yes; I have just looked at it.

2999. I have no instructions about line 18 for the moment, I am sorry to say; it takes out the net receipts, £100,000, in three now long-past years for freight rebates fund; I do not know whether you recognise that—

3000. (President): It takes one back a very long time?—It takes out an item of expense which appeared in London Transport Accounts for three years, and then disappeared, because I think the freight rebates fund was wiped out. We have ignored that item, which was of benefit to the Objectors.

3001. (Mr. Milner Holland): Yes; Mr. Hill seems to have been bending over backwards to give a picture which is not unduly weighted in our favour?—I agree.

3002. I do not ask you to look at line 20 for a moment; it is what he has calculated should be the contribution to Central Charges based on the previous table?—Yes.

3003. Line 21 gives net surpluses or deficits, and line 22 gives accumulated surpluses or deficits?—Yes.

3004. So that line 3 is the same calculation as yours, except for the contribution to Central Charges?—Yes, but of course that is about the most important line in the table.

3005. I am entirely with you, but that is what it is?—Yes. I appreciate that, but I said I could not check it, because I could not—

3006. You cannot check it, except possibly as a matter of mathematics, and I assume there is nothing wrong with the mathematics. Line 16 is intended as a mathematical calculation to show what is the proportion of Central Charges which a fraction consisting of line 7 over line 11 produces if multiplied into the total Central Charges?—I think it is line 7 over line 14.

3007. I am sorry; it is line 7 over line 14—it is my dice-playing which makes me say 7 and 11 together. Line 7 over line 14, as a proportion to Central Charges gives you mathematically line 16?—Yes.

3008. I was going to put a question to you that you have already answered without being asked: If you are going to calculate what is the total deficit of London Transport on your PJ 14 basis, the most important figure is what you ascribe to London Transport for Central Charges?—Certainly.

3009. Put in, I think, in order to call attention to a mathematical fact, and at the same time to render due respect and homage to the Tribunal, is a note at the bottom of the front page, that the mean of 1953 and 1954, the former of which is £5.3m. and the latter of which is £5.5m., is £5.4m., and as I understand it "Y" Year was a sort of half of 1953 and half of 1954; it so happens that at that point of the table Mr. Hill has, if I may say so without impertinence, come down on the side of the angels?—It is a happy coincidence.

3010. You say it is a happy coincidence, but the method of arriving at Mr. Hill's figures is at any rate intelligible and consistent throughout?—Certainly.

3011. And it does produce the same result as that reached by the Tribunal?—Yes.

3012. Mr. Hill has prepared a little table which perhaps I need not put in in cross-examination, but I will ask you when you see it; it is based upon the index of retail prices for a number of past years, starting from the 17th June, 1957, when the indices started from 100 again, and the index of weekly wage rates, and containing in the same table the same percentages of increases in London Transport Executive ordinary fares (road and rail) over the same period?—Yes.

3013. Would you like to see them before Mr. Hill puts them in?—I think we should see them. The first two tables are not likely to cause any difficulty—they are published figures. I would like to see how the figures on the third one are arrived at.

3014. The same exhibit contains a table of average fares (average receipts per passenger mile) and a comparison between present fares and proposed fares over comparable years?—Yes.

(Mr. Milner Holland): May I therefore distribute Exhibit SWH 3. (Exhibit SWH 3 put in.)

(President): I do not think we have ever had such a wide area of choice presented to us before. If I understand Mr. Hill's tables, he makes the total deficit over the ten years £10.3m.; Mr. James makes it £15.5m., and Mr. Lawson, as I understand his table, makes it £2.9m.

3015. (Mr. Milner Holland): No, Sir, that is not so. Mr. Hill will be telling you in due course that his figures exactly correspond with Mr. Lawson's figures, because all the second part of Mr. Hill's table attempts to show you what PJ 14 would look like if you put in what Mr. Hill says is the right figure for Central Charges. Mr. Hill will tell you that Mr. Lawson's figure of £2.9m. and the

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[Continued]

figure on that table of £10.3 m. are precisely the same if you calculate them on the same basis, because Mr. Lawson has written back certain sums charged to Maintenance Equalisation Account and there are other differences which produce a different figure, but it represents exactly the same measure of deficit. Mr. Hill has merely performed the exercise of showing you what the difference from PJ 14 would be if you charged Central Charges on another basis. (*To the Witness*): If SWH 3 has been circulated, I have no questions to ask you about it, but I just want to get on the record what it is. The top two boxes are the index of retail prices and the index of weekly wage rates, which, of course, are common public documents. The middle box is a table which, no doubt, you wish to check but which, if correct, shows that the 1947 fare, if the present proposed increases are granted, will have gone up by 100 per cent. at the 14d. and 23d. rates, and between 75 and 87 per cent. at rates up to 8d. The bottom box is a table indicating the increases in the average receipt per passenger mile for road and for rail and the same combined and for present fares and proposed fares. I could not possibly ask you to say "yes" or "no" to the accuracy of any of those figures, but I would be grateful if you would look at them so that I may give you advance notice of them?—Yes. Of course, the Ordinary Fare table shows you what happens when you fail to put up your fares high enough soon enough. We started from too low a figure in 1947, but I will not argue.

3016. I think that is a matter of argument, Mr. James. I do not want to take time over what is plainly part of Mr. MacKenna's case also, but I will ask you one or two questions on reserves. The British Transport Commission has budgeted on historical cost till now?—On historical cost for depreciated assets. For non-depreciated assets it is an attempt to equalise actual expenditure and, therefore, it is on current costs.

3017. I think you told the Tribunal, at Question 659, that in 1948 the Commission said as and when earnings are available for the purpose, it is intended to make further allocations out of profits year by year to replacement reserve?—Yes.

3018. It may be you do not hold yourself out as a policy witness, but can you feel it right to treat the present moment, when the discounts calculated are so high, as a moment when earnings are available for the purpose?—When they can be made available, yes.

3019. That is a slight change from what the Commission said?—I think not.

3020. In order to get the earnings for this purpose now you will have to raise fares very substantially and at very heavy discounts?—You say we will have to raise them "very substantially". We are seeking £5.7m. from London Transport's passengers and I think if you look at Day One, page 29, Exhibit PJ 11 you will see it is £5.7m. on a passenger traffic receipts budget of £78m. Whether one calls it "substantial" or "very substantial" is a matter for argument, but it looks like about 7½ to 8 per cent.

3021. If you combine the whole of the London figures, since you raise that point, the discounted yield is £10½m.?—That is true, on £110m.; that is about 9 per cent.

3022. I agree, Mr. James. There it is. It depends what you mean by "substantial"?—Yes.

(*The witness withdrew.*)

Mr. MISHART INGRAM WINCHESTER, recalled.

(*Mr. MacKenna*): I wonder whether I might put my tax point to Mr. Winchester, Sir? My friend Mr. Milner Holland says he does not mind if I go first.

Further cross-examined by Mr. MACKENNA.

3032. Mr. Winchester, the point I am upon is the last line of WHL 1. You have seen that table, no doubt?—Yes.

3033. In WHL 1, at line 20, Mr. Lawson claims credit for the sum of £1m. "being income tax recovered in 1954—proportion estimated to be attributable to London Transport"?—Yes.

3034. Mr. Lawson has, I think, given in his notes to WHL 1 a fairly long explanation of his understanding of the income tax recovery?—I have not seen these.

3023. Only one other question I want to trouble you with. You did seem to indicate that it was possible to segregate reserves for London. If reserves were made, they would be segregated for London?—They would be, yes. What I said—and I will, perhaps, repeat it—was that we shall be able to identify the reserves appropriate to London and there is no risk—and I think this was really the point of the question I was answering—of reserves created for London Transport being swallowed up by British Railways or some other part of the Commission's undertaking.

3024. If you could construct your Accounts so as to show how much does come to you year by year from London Transport by way of reserves that would show you how much it was so that at any time you could find out how much that was?—That is right.

3025. Is that what you really meant?—That is all we need do. That shows publicly what claim London Transport has on the Commission.

3026. I do not think you are quite following me. Were you merely telling the Tribunal that it would be possible to keep your Accounts in such a form that at any moment you could find out how much had been paid in respect of London Transport?—Yes.

3027. Because if that is all you are saying, I am not going to ask any questions about it?—I think it was going a little further than that. You have no doubt seen this booklet.

3028. You are holding up the booklet called "London Transport, 1957", are you?—Yes.

3029. In fact, that includes this?—London Transport, 1957, does not present the form of accounting statement that will appear in London Transport, 1958, which will include this further information about reserves.

3030. I only wondered, because you referred to London Transport, 1957, as if it showed the various balances, including reserves. What you said was any reserve we have set aside for London Transport will appear in that somewhere?—Yes. I was only showing it to you as an illustration of the type of publication in which it will appear.

3031. I do not think those instructing me followed what you were saying, but I do now. It does not contain it for the moment, but you say it will contain it?—Yes.

(*President*): Does anybody else wish to cross-examine?

(*Mr. Rippon*): I have no cross-examination of Mr. James, except that I would like to adopt the cross-examination of my learned friends, so far as it may be helpful.

(*President*): The cross-examination of both of them?

(*Mr. Rippon*): Yes. The other point I ought to raise now is with regard to the question I raised the other day of a table being prepared by West Ham which might be put to Mr. Harbour if there was any dispute about the facts. There is some area of dispute about the facts, but I think that can be straightened out and will not involve any cross-examination. When the table has been agreed, may I ask your permission to put it in as a document?

(*President*): If it is an agreed document it may be handed in. What position have we reached now, Mr. Fay?

(*Mr. Fay*): I think we have reached the stage at which I recall Mr. Winchester, Sir.

(*Mr. MacKenna*): He did not put it in that way.

3035. It is fairly long and I do not want to take up your time, or anybody's time, by reading it, but you will find it at the bottom of page 8 to the top of page 12?—I did not understand the extent of what you wanted to ask me about. I have addressed my mind to item "B" on page 9.

3036. I will put my points to you as shortly as I can. In 1954 did the Commission transfer £12m. from its tax account to an account described as Provision for Contingencies?—Yes.

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Mr. WISHART INGRAM WINCHESTER

[Continued

3037. Do I find the note explaining that matter in the 1954 Accounts, at page 137?—Yes.

3038. If I may just read the note: "The sum of £12m. has been transferred from this Account"—namely the Tax Account—"to a Provision for Contingencies, being approximately the excess of tax recovered on dividends declared by subsidiary Companies, mainly out of pre-acquisition profits, over the tax charged in their Accounts during the period from 1948 to 1954, the Commission having incurred deficits on Revenue Account over the same period"?—Yes.

3039. As I understand the note, the ground on which the Commission recovered the tax was that the Commission had incurred deficits on Revenue Account during the period 1948 to 1954; is that right?—Yes.

3040. Is this the way of it: The Commission, having made losses during that period, was entitled to recover the tax which had been deducted at source by the subsidiary Companies in paying their dividends to the Transport Commission?—Yes.

3041. In such cases is it right to say the credit corresponding to the tax recovered off-sets, to that extent, the revenue losses against which the tax has been recovered?—The tax has been recovered by off-setting the tax deducted from the interest paid by the Commission on Transport Stock.

3042. As I understand it, we are agreed that the ground on which the Commission recovers the tax is that the Commission has incurred deficits on Revenue Account during certain years?—Yes.

3043. The question I asked, on that understanding, is whether the credit corresponding to the tax recovered does not off-set the revenue losses against which the tax has been recovered?—No, I do not think that is a fair way of putting it. The reason why the Commission is in this position is because they have made losses during these years. In view of the fact that they have made these losses in these years they paid tax to the Inland Revenue to the extent that they have deducted tax from the interest and dividends they have paid, and the amount so paid over is reduced by any tax deducted from any interest and dividends they have received. We are on what is called a Rule 21 computation. The condition precedent is that they made losses.

3044. The condition precedent is that they have made losses?—Yes.

3045. When one considers how that sum of £12m. should be apportioned between the different parts of the undertaking, when one is trying to ascertain what is the financial position of London Transport, would you agree with me that the reasonable way of apportioning that sum of £12m. would be to ascertain to what extent, on the one hand, the whole undertaking had incurred losses, and on the other hand, to what extent London Transport had incurred losses, according to the Commission's Accounts, which had resulted in the recovery, and to apportion the £12m. in that way?—No. I would have thought the proper way was to apportion it to the people who had contributed it, namely the bus companies or the subsidiary companies, mainly bus companies, who found this money out of pre-vesting profits.

Further cross-examined by Mr. MILNER HOLLAND.

3055. I have one or two questions for you, Mr. Winchester, arising out of the bus companies, and then I want to ask you a few questions based on WW 11 and the explanatory tables. Before we turn to London Lines, have you now checked the figures I put to you about the United Automobile Services, Limited?—Yes.

3056. May I now ask you the question again: For the year 1956 was the profit before tax of that company £516,613?—May I simplify this and say that the figures you put to me in cross-examination on a previous day I accept as correct.

3057. Just for the Record perhaps we could now put them together. The profit before tax of the United Automobile Services, Limited, for the year 1956, was £516,613?—Yes.

3058. The tax paid was £196,934?—Yes.

3059. The amount put to reserve was £10,000?—Yes.

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3046. I follow what you are putting, but is it not an argument, at all events, in favour of making the apportionment having regard to the losses, which alone are the justification for the refund being made?—Well, there are the current losses and there are the losses carried forward for the pre-vesting undertaking, and you could justify the thing on more than one basis; but I agree we have mentioned here the current losses.

3047. Exactly. We have tried to arrive at what the losses figure would be for the purpose of that apportionment, and the figures are set out on page 11 of Mr. Lawson's notes to WHL 1. Taking the period 1948 to 1954, in the first column he has taken, according to the BTC Accounts, what the BTC and subsidiaries combined losses were in each of those years, and they total £39.2m. Then he takes the London Transport figure as per Exhibit WHL 1, that is £3.4m., and then he subtracts from the £39.2m. the London Transport figure and gets the London Transport proportion and the other activities proportion. You see what he has done?—Yes.

3048. That means the London Transport figure is roughly one-twelfth of the other activities figure. You see that?—Yes, I see the basis.

3049. Then what he has done is to say: "Well, here is £12m. which has been recovered by virtue of our losses during these years and I apportion that eleven-twelfths to other activities and one-twelfth, namely £1m., to London Transport?—It all depends what you call the prime cause. The prime cause, I think, is the subsidiary companies having these pre-acquisition profits to distribute, but if you disallow their claim and apportion it according to the losses contribution of the various activities and I also accept your assessment of the losses contribution of London Transport, then the arithmetic is correct.

3050. If I were to take your assessment of London Transport losses then my share of the £12m. on this basis would be very much greater?—Yes.

3051. But I am being consistent, and at this point in your favour, by taking my own assessment of London Transport losses?—Yes. May I say that you have not asked me the question whether it is proper to show this as a credit to revenue. I should suggest it is most improper. These are pre-acquisition losses which arise from pre-acquisition conditions. They arise from the pre-acquisition losses of the subsidiary companies, and while London Transport might have some kind of claim for those to be taken into account, they cannot be taken into account as a revenue receipt.

3052. Is it not proper to regard a credit which corresponds to tax recovered in respect of loss as a contribution to revenue?—As an off-set to previous charges for tax, you mean?

3053. As an off-set against the losses which made the recovery possible?—I would regard that as quite improper.

3054. There may be a difference of opinion between you and my Accountant about that matter. Have you never seen an item of that kind treated as off-setting something on the revenue side?—I would not have thought it likely I would see it in a set of accounts of an undertaking that had not previously had a debit for income tax.

3060. The amount paid in dividends was £305,000?—£311,000 was the figure you suggested.

3061. You are quite right; £311,037?—Yes.

3062. The sum which in that year was allowed before the Traffic Commissioners as requisite to provide for depreciation of assets on a replacement basis instead of on historical cost, the additional sum, was £108,022?—I have not been able to identify that figure precisely, but it is obviously about right.

3063. Is it true to say that there are a number of bus companies owned by the Commission in which the facts are similar to those quoted in the case of United Automobile Services, Limited?—Similar to this extent, that they are allowed replacement provisions in their Applications to the Licensing Authorities and they put something to reserve, but not a very large sum.

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[Continued]

3064. In the particular case which you, so to speak, started up by mentioning yourself, that is United Automobile Services, Limited—?—I do not think I started it.

3065. I think you did, Mr. Winchester. I thought you quoted that company in saying some were putting something to reserve, but we can look at the Record if we want to. In that case, at any rate, the sum which was put to reserve was £10,000 and the sum which was stated to be required for replacement over historical cost was nearly eleven times that sum. May we take it that in a number of bus companies the proportion is about the same?—I have not checked it. There are similar facts, that the companies have distributed dividends and have set aside to reserve less than the amount they have paid.

3066. And the distribution of dividends has been to the British Transport Commission?—Yes, to the shareholders, obviously.

3067. And it has gone to reduce the total deficits of the British Transport Commission?—No. The dividends go as cash to the Commission.

3068. Turning to London Lines, perhaps we might have in front of us WW 11 (which is printed at page 21 of the First Day) and the expanded figures printed at page 118 of the Fifth Day. The effect of WW 11, put very shortly, is this, is it not, that the figure of passenger receipts is £28m. and that, as you told us, is a factual figure?—Yes.

3069. Against that you set four items of expense which we will examine separately: Movement expenses, £16m.; terminal and documentation expenses, £5m.; track and signalling expenses, £6m. and general administration £1m.?—Yes.

3070. On your expanded statement you have expanded that movement expense to £14m. for local trains?—Yes.

3071. I want to ask you to take from me—and again check them if you wish to—the figures which you put forward last time you performed these detailed exercises in 1954. If the Members of the Tribunal find it convenient, I can supply a table. Against the figure of £6.4m., which is the total of Southern Region suburban stock and other stock, we put your 1954 figure of £5.1m. Is that right?—I do not know. I can only offer to check it for you because I have not the figures with me.

3072. Will you just take these figures from me, because I think you will recognise the totals. Against the £6.4m. I am suggesting your 1954 figure was £5.1m. Against the £0.7m., which is the actual cost of the London Midland Region, your 1954 figure was £0.6m. Against your £0.5m. for the Eastern Region your 1954 figure was £0.6m. Against the next two figures together, that is "London Transport trains, amount charged by London Transport and credited in their accounts £0.7m." and "electric traction expenses incurred by British Railways, £0.5m." together making £1.2m., your 1954 figure was £1m.?—Yes.

3073. You will find that the total down to that point, which to-day makes £8.8m., in 1954 was £7.3m. Is that a familiar total, since we are taking totals?—It is not at the moment, but I am not denying it.

3074. You recognise the end total, I think. Just continuing, in 1954 you had nothing for diesel multiple unit services or diesel locomotive services?—I think you mentioned that one of these was in another heading, but it was quite small.

3075. There is no separate figure for it?—No.

3076. Under steam locomotive services, let me just call out the figures in 1954 to you: Eastern Region, costed services £2m., non-costed services £1.1m. London Midland Region, £0.7m. Southern Region, £0.7m. Western Region, £0.6m. Giving a grand total of £12.4m. Is the £12.4m. total one that you can agree with me?—I am sorry, but I do not carry them in my head. I can no doubt verify it.

(President): By what you call the grand total of £12.4m., you mean the £7.3m. plus the sum of the six separate items you have subsequently given?

3077. (Mr. Milner Holland): Yes: the steam on that basis was £5.1m. and the other £7.3m., making £12.4m.?—I accept £12.4m., yes.

3078. Do you remember that in 1954 what you did was to arrive at that total of £12.4m. and then say "We must apportion that between London Lines pure and

simple and the through trains expenses", the use of through trains?—I am sorry, I have not got this.

3079. The £12.4m. includes the through trains?—Yes. 3080. So that the totals I have called out contain the element of the through trains?—Yes.

3081. Which you broke down afterwards?—You mean in reply to the questions the LCC asked afterwards?

3082. Yes. The £12.4m. in 1954 was broken down into £11.1m. London Lines and £1.3m. for the through train services?—That probably was true. Again, I am afraid I do not carry all these back details in my head. I have no doubt you are right.

3083. I just want to get it as clear as I can and I do not want you to be hustled into giving any answer of which you do not feel certain. What you have done this year is to work out in detail the movement expenses of local trains at £14.1m.?—Yes.

3084. Then you add in a contribution towards the expenses of through trains at £2m.?—Yes.

3085. Which comes, to the nearest million, to £16m.?—Yes.

3086. The comparable figures in 1954—and I would be grateful if you could get confirmation of this—were £11.1m. and £1.3m., totalling £12.4m. If you are not sure, I do not want to go on too fast?—I really have not got the details of these 1954 estimates in front of me. I am very happy to look at any particular figure or comparison you wish.

3087. I do not want to go ahead with a lot of questions if you feel any doubt about it, because I do not think it fair to do so. 1954 was the last exercise of this kind, was it not?—Yes.

3088. And the £16m. we are talking about this year corresponds with the £12.4m. in 1954?—Yes.

3089. Is it impossible to have it checked that £12.4m. was £11.1m. detailed expenses of London Lines and £1.3m. as the contribution towards the expenses of through trains? If you think it convenient, while that is being checked I might be able to ask you one or two other questions, and then we can come back to that?—Certainly.

3090. Have you got the car miles figures for the electric trains and the train miles figures for the steam trains?—Yes.

3091. Are the car miles figures for the electric trains on which the £8.8m. is based today 193.3m. miles?—Yes.

3092. Have you the corresponding figure for 1954?—If I had known you were making these detailed comparisons I might have had it ready for you.

(President): Mr. Milner Holland, I am not at all certain that the best thing would not have been to have produced the figures you were going to put to let Mr. Winchester know you wanted his 1954 figures.

3093. (Mr. Milner Holland): If I may say so, with respect, that is a perfectly fair observation. I have been supplied with the 1954 figures and I have a table which I understand can now be handed in. (Table put in and marked "SWH 6"). (To the Witness): I see that these are called "exercises", Mr. Winchester, and the comparable figures for 1954 are on the left-hand side with the 1958 figures on the right-hand side. You will see in this tabular form the steam figures, lines 1 to 10, which I have already called out, totalling £5.1m. in 1954 and £5m. in 1958, and the electric figures in line 15, £7.3m. in 1954 and £8.8m. in 1958. No doubt you will be kind enough to check those figures before we go very much further, but not as you sit there. You will see on the right-hand side the figure I have just put to you of 193.3m. car miles for the electric total of £8.8m.?—Yes.

3094. And above it 10.2m. train miles for steam?—Yes.

3095. Those are right, are they not?—Yes.

3096. Are you in a position to check the train miles and car miles for 1954 at the moment?—Yes, I have them in front of me.

3097. Those are right, are they?—These figures are right, yes. The train-mile figures you have given me here I agree for both 1954 and 1958, and the car miles.

3098. Now let us look at line 17. This shows that your figures in 1954 were total figures including the apportioned

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[Continued]

costs of through trains, £12.4m. broken down on this table into £11.1m. and £1.3m.?—Yes.

3099. Have you now had a chance to say whether that is correct as representing the 1954 exercise?—I have not got the expense figures for 1954 in front of me.

(President): I think, really, Mr. Milner Holland, it would almost be more convenient to stop a little earlier so that these figures can be checked by Mr. Winchester by Wednesday morning.

(Mr. Milner Holland): Yes, Sir, I do not want to waste time with this type of question, I respectfully agree. I will do entirely as you think, but possibly you might like me to put certain points to Mr. Winchester which he might like to check.

(President): I think it is so much more convenient if Mr. Winchester can come back, say, on Wednesday morning and say: "I agree with the figures on the statement."

(Mr. Fay): I dare say my learned friend's figures are taken from the transcripts of the 1954 proceedings, from Mr. Winchester's evidence, and I would certainly be prepared to accept them as correct, subject to any error we may find in checking. So far as I recall, these figures were all given in *viva voce* evidence by Mr. Winchester in 1954, and if that is the source of them, I think I could assume that they are correct.

(Mr. Milner Holland): That is the source of them.

(Mr. Fay): Then I will assume, for present purposes, that they are correct.

3100. (Mr. Milner Holland): May we turn to one or two things which do not depend upon accepting figures? Have the electric costs gone up very much more since 1954 than the steam costs?—You mean on this table, or as a matter of fact?

3101. As a matter of fact?—I should not have thought so.

3102. Nor would I. Would you have a look at what this table throws up. I will put to you some suggested mathematical exercises which I have done, and I would be grateful if you would check them. In 1954 steam costs were £5.1m. for 11.4m. train miles?—Yes.

3103. My thinking about this is that that throws up a figure of £0.447 per train mile, just dividing one into the other. Would you check that before Wednesday. Will you now put down what I think the steam costs work out at on your 1958 exercise, namely £5m. for 10.2m. train miles, making £0.490 per train mile. The increase from £0.477 to £0.490 is just under 10 per cent.?—Yes, I follow.

3104. On the other hand, if you contrast the electric costs for 1954, £7.3m. for 190.1m. car miles, you will get, I think, a figure of £0.0384 per car mile in 1954, and £0.0455 per car mile in 1958—that is dividing 193.3m. car miles by £8.8m.?—Yes.

3105. Again I suggest that from £0.0384 to £0.0455 is a jump of 18½ per cent. That is why I asked you the question whether you saw any reason for electric costs being so much enhanced on steam costs. That suggests that, perhaps, the electric costs are too high?—I really think, without going into what is behind these figures, that I am not prepared to make any reply about that.

3106. Mr. Winchester, in case you are at all sensitive about it, this is not Mr. Hill's point, this is just my looking at the figures, but it does suggest that unless the electric costs have gone up more than the steam costs, there is something wrong with the figures?—I am certainly delighted to try and find the reason for the disparity.

3107. Is the reason, possibly, that the 1954 figures were too low?—That could be a reason, yes.

3108. Have your investigations recently led you to suppose that the 1954 figures were too low?—I cannot remember anything leading to that conclusion, no.

3109. Then I want you to take one or two other little mathematical masterpieces of mine, not Mr. Hill's. First of all, the increase from £12.4m., which was your 1954 total, to £16.1m., which is your 1958 total, is 29.8 per

cent. So that shows an overall increase of 29.8 per cent. in costs?—Yes.

3110. The highest percentage rise which you mentioned in your notes, in your details, was a rise of 26 per cent. since 1954?—Yes.

3111. And would you check that if your 1954 figures were only increased by 26 per cent., you would only get a total of £15.6m., half a million pounds less than your estimate?—Yes.

3112. One more thing while we are on movement expenses: If you accept—and you shall withdraw it if later you find it is wrong—that £11.1m. was your figure in 1954 for London Lines and £1.3m. was your 1954 figure for the part contribution to expenses of through trains, it follows that your £11.1m. is today £14.1m., and your £1.3m. is today £2m.?—Yes.

3113. The £14.1m. is 27 per cent. up on the £11.1m.?—Yes.

3114. Why have you taken a round figure of £2m. this year?—We have not, that is a calculated figure. I do know one of the reasons for the disparity in the proportionate increase there. The Sheffield service was a local service, wholly a local service, in 1954, and it is now part of a through service. I am not saying that is the whole of the answer, but it is one of the facts I recollect being changed.

3115. The increase from £1.3m. to £2m. is a 54 per cent. increase?—Yes, I expect so.

3116. Twice the increase for the rest?—It is not a guess, it is a calculated figure in the same way as the local train figure is a calculated one.

3117. And we have not asked you for details of how you calculated it, so you have not supplied them?—That is so.

3118. As a matter of interest, I suppose all these figures which you have given us now are figures which were worked out before you gave your evidence?—I would not say that they were all available in that form. These are figures produced in the form in which you asked for them, but whether they were in existence as figures on a piece of paper before then I could check for you.

3119. What we asked was whether you would let us have the details from which Mr. Winchester obtained the figures which were given by him in evidence?—We endeavoured to give you as much detail as we thought you would like.

3120. I am only asking this: I do not suppose there is any bite in the question, but if there is you will know and I do not, but, presumably, all these figures you have now supplied existed before you gave your original evidence. That is all I am asking?—I would not know, without looking at them, whether each one of these figures was separately available on a piece of paper.

3121. You could not have reached your total of £14.1m. without having them?

(President): Does it matter?

3122. (Mr. Milner Holland): Not very much, Sir, but if you would allow me to ask the question. (*To the Witness*): Could you have arrived at your total of £14.1m. in WW 11 without having these figures?—Let me look through the figures and see. No, I think all these figures must have been available as such in the detailed accounts.

(Mr. Milner Holland): Now, Sir, after your rather broad hint, may I say that the rest of the table on page 1 contains the terminal and documentation expenses, and the second page contains track and signalling costs and general administration, and a summary of some percentages that have been worked by Mr. Hill. Possibly between now and Wednesday morning Mr. Winchester would just check whether the figures in the table for 1954 are correctly stated, and then I can ask him some more questions about them.

(President): My remark was not meant as a hint that it was time to rise, it was meant as a broad hint that the topic you were then pursuing did not much interest me.

(Adjourned until Wednesday morning at 10.30.)

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[Continued]

EXHIBIT WHL 6

EXAMPLES TO BE REFERRED TO BY MR. W. H. LAWSON IN EVIDENCE ON HISTORICAL COST AND REPLACEMENT COST DEPRECIATION

General Note on Examples:

These examples except for Example 1 which assumes stable prices throughout are based on Mr. Fay's illustration of a bus which originally cost £1,000 and, as a result of 100 per cent price rise over ten years, will have to be replaced at a cost of £2,000, it is assumed that thereafter prices remain stable. For the sake of simplicity these examples ignore "back-log", technological improvements and other important matters.

HISTORICAL COST DEPRECIATION

Stable Prices

Example 1

Year 1	Loan Capital	...	£1,000	Bus	£1,000
Year 10	Loan Capital	...	£1,000	Bus	£1,000
	Depreciation	...	£1,000	Cash	£1,000
Year 11	Loan Capital	...	£1,000	New Bus	£1,000

1. *Capital*—No increase needed, the depreciation has provided for replacement.
2. *Overheads—from year 11*
 - (a) Interest. No increase.
 - (b) Depreciation Charges. No increase.

Rising Prices

Example 2

Year 1	Loan Capital	...	£1,000	Bus	£1,000
Year 10	Loan Capital	...	£1,000	Bus	£1,000
	Depreciation	...	£1,000	Cash	£1,000
Year 11	Loan Capital	...	£2,000	New Bus	£2,000

1. *Capital*—Has been doubled but Assets still cover Loan Capital.
2. *Overheads—from year 11*
 - (a) Interest. Will be doubled.
 - (b) Depreciation Charges. Will be doubled.

REPLACEMENT COST DEPRECIATION

Example 3—100 per cent Share Capital

Year 1	Share Capital	...	£1,000	Bus	£1,000
Year 10	Share Capital	...	£1,000	Bus	£1,000
	Historical Cost Depreciation	...	£1,000		
	Replacement Reserve	Cost	£1,000	Cash	£2,000
Year 11	Share Capital	...	£1,000	New Bus	£2,000
	Reserve	...	£1,000		

1. *Capital*—Share Capital has been maintained in "real" terms. The Depreciation has provided cash for replacements.
2. *Surplus*—There will be a surplus representing the money reserve required to maintain the capital in "real" terms.
3. *Overheads*
 - (a) Dividend. Will probably be increased for year 11.
 - (b) Depreciation Charges. Will have been increasing up to Year 10 but stable thereafter.

REPLACEMENT COST DEPRECIATION

Example 4—50 per cent Share Capital, 50 per cent Loan Capital

Method 1—Replacement Cost Depreciation charged on 50 per cent of Assets

Year 1	Share Capital	...	£500	Bus	£1,000
	Loan Capital	...	£500		
Year 10	Share Capital	...	£500	Bus	£1,000
	Loan Capital	...	£500		
	Historical Cost Depreciation	...	£1,000		
	Replacement Reserve	Cost	£500	Cash	£1,500
Year 11	Share Capital	...	£500	New Bus	£2,000
	Loan Capital	...	£1,000		
	Reserve	...	£500		

1. *Capital*—The Share Capital has been maintained in "real" terms. The Loan Capital has been increased, but is still 50 per cent of Assets.
2. *Surplus*—There is a surplus of £500 representing the money reserve required to maintain the capital in "real" terms.
3. *Overheads—from year 11*
 - (a) Interest. Will be doubled.
 - (b) Dividend. Will probably be raised.
 - (c) Depreciation Charges. Will have been increasing up to year 10, but stable thereafter.

Example 5—50 per cent Share Capital, 50 per cent Loan Capital

Method 2—Replacement Cost Depreciation charged on 100 per cent of Assets

Year 1	Share Capital	...	£500	Bus	£1,000
	Loan Capital	...	£500		
Year 10	Share Capital	...	£500	Bus	£1,000
	Loan Capital	...	£500		
	Historical Cost Depreciation	...	£1,000		
	Replacement Reserve	Cost	£1,000	Cash	£2,000
Year 11	Share Capital	...	£500	New Bus	£2,000
	Loan Capital	...	£500		
	Reserve	...	£1,000		

1. *Capital*—The share capital has been more than maintained in "real" terms. Cash will have been provided for replacements. The Loan Capital will be 25 per cent of Assets compared with 50 per cent of Assets at the time of original purchase.
2. *Surplus*—There will be a surplus equal to twice the amount of the Share Capital.
3. *Overheads—from year 11*
 - (a) Interest. No increase.
 - (b) Dividend. Will probably be increased.
 - (c) Depreciation. Will have been increasing up to charges. Year 10, but stable thereafter.

Example 6—100 per cent Loan Capital

Year 1	Loan Capital	...	£1,000	Bus	£1,000
Year 10	Loan Capital	...	£1,000	Bus	£1,000
	Historical Cost Depreciation	...	£1,000		
	Replacement Reserve	Cost	£1,000	Cash	£2,000
Year 11	Loan Capital	...	£1,000	New Bus	£2,000
	Reserve	...	£1,000		

1. *Capital*—There is no share capital that has to be maintained intact. Depreciation provides for the full cost of replacement.
2. *Surplus*—There is a surplus of £1,000, equivalent to the Loan Capital, compared with no surplus in times of stable prices. (Example 1).
3. *Overheads—from year 11*
 - (a) Interest. No change.
 - (b) Depreciation. Will have been increasing up to Charges. Year 10, but stable thereafter.

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[Continued]

TABLE SWH 3

LONDON TRANSPORT EXECUTIVE

INCREASES IN FARES SINCE 1947 IN COMPARISON WITH CHANGES IN MONEY VALUES

INDEX OF RETAIL PRICES					INDEX OF WEEKLY WAGE RATES (all workers)				
Base (17th June, 1947)	...	...	...	100	Base (30th June, 1947)	...	...	...	100
September, 1958	...	...	...	166	September, 1958	...	...	...	178
October, 1958	...	...	...	168	October, 1958	...	...	...	181
November, 1958	...	...	...	168	November, 1958	...	...	...	181
Rise since 1947	...	...	...	68%	Rise since 1947	...	...	...	81%

L.T.E. Ordinary Fare (Road and Rail)					
Miles	1947 Fare d.	Present Fare d.	Per cent. increase on 1947 per cent.	Proposed Fare d.	Per cent. increase on 1947 per cent.
1	14	3	100	3	100
1½	2½	4	60	5	100
2	2½	5	100	5	100
3	4	6	50	7	75
4	5	8	60	9	80
5	6	10	67	11	83
6	7	12	71	13	86
7	8	14	75	15	87

Average Fares		Road		Rail		Road and Rail combined	
(Average Receipt per Passenger Mile)		d.	Index	d.	Index	d.	Index
1948	...	1.14	100	0.87	100	1.05	100
1957	...	1.98	174	1.67	192	1.88	179
Present Fares (approx.)	...	2.02	177	1.70	195	1.92	183
Proposed Fares—1958 Scheme	...	2.25	197	1.93	222	2.15	205

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TABLE SWH 4

BRITISH TRANSPORT COMMISSION

CENTRAL CHARGES

Ref.	—	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
(£ thousands)											
(A)	Charges for service of capital										
1	Interest on stock and other loans	42,297	43,937	44,956	44,829	46,009	50,446	52,411	53,827	54,720	61,888
2	Capital redemption	2,488	2,564	2,627	2,671	2,820	2,969	2,984	3,171	3,268	3,269
3	Amortisation of stock discount	—	1	64	95	184	485	473	515	562	564
4	Stock issue expenses	—	—	—	—	409	—	325	93	—	—
5	Management of stocks and loans	350	361	320	286	271	289	294	279	257	249
6		45,135	46,863	47,967	47,881	49,693	54,189	56,487	57,885	58,807	65,970
7	Less interest received	4,104	3,139	2,223	935	1,090	1,711	2,549	2,760	1,145	1,243
8	Sub-Total	41,031	43,724	45,744	46,946	48,603	52,478	53,938	55,125	57,662	64,727 (97%)
(B)	Other Items										
9	Central administration	356	522	902	1,082	1,071	1,060	1,087	1,397	1,595	1,771
10	Compensation of staff	—	3	15	37	37	33	25	21	22	22
11	Winding up transferred undertakings	72	5	—	—	—	—	—	—	—	—
12	Profit (Cr.) or Loss (Dr.) on sale of investments	Dr. 13	Cr. 426	Cr. 161	Cr. 87	Dr. 4	Cr. 47	Cr. 264	Dr. 832	Dr. 33	Cr. 77
13	Miscellaneous receipts	Cr. 258	Cr. 73	Cr. 182	Cr. 118	Cr. 120	Cr. 76	Cr. 80	Cr. 135	Cr. 123	Cr. 50
14	Grand Total	41,214	43,755	46,318	47,860	49,595	53,448	54,706	57,240	59,189	66,393
Less Interest on Advances (Special Account)											
(i) for capital expenditure (B.R.)										282	3,910
(ii) for deficits (B.R.)										—	2,636
Net										58,907	59,847

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[Continued]

TABLE SWH 5

BRITISH TRANSPORT COMMISSION
LONDON TRANSPORT EXECUTIVE

(A) Allocation of Central Charges in ratio of Capital Invested in L.T.E. to Total Capital Invested

(B) L.T.E. Summary of financial results, 1948-1957, inclusive

(A) Allocation of Central Company's financial results, 1948-1957, inclusive												£ Millions
(B) L.T.E. Summary of financial results, 1948-1957, inclusive												£ Millions
Ref.	CAPITAL INVESTED										1956	1957
1	LONDON TRANSPORT EXECUTIVE											
2	Fixed Assets	129	137	145	148	151	153	153	150	148	146	
3	Stores and Materials	4	4	4	4	4	4	4	4	4	4	
4	Accumulated Surplus (Cr.) or Deficit	Cr. 3	Cr. 4	Cr. 3	2	4	8	9	10	10	10	
5	Less Balance of provision account (now Maintenance Equalisation Account)	130	137	146	154	159	165	166	164	162	160	
6	Net Capital Invested	13	12	11	10	9	7	8	8	8	9	
7	Mean for Year (for 1948, end of year)	117	125	135	144	150	158	158	156	154	151	
8	B.T.C.	117	121	130	139.5	147	154	158	157	155	152.5	
9	Fixed Assets	1,467	1,545	1,579	1,609	1,625	1,656	1,683	1,711	1,764	1,856	
10	Stores and Materials	66	69	70	87	105	103	95	94	109	121	
11	Accumulated deficit	5	26	40	39	31	27	39	70	124	194	
12	Less Balance of provision accounts (now Maintenance Equalisation Account)	1,538	1,640	1,689	1,735	1,761	1,786	1,817	1,875	1,997	2,171	
13	Net Capital Invested	311	295	281	266	239	216	221	224	222	239	
		1,227	1,345	1,408	1,469	1,522	1,570	1,596	1,651	1,775	1,932	
										1,713	1,854	
										5	70	
										—	51	
										1,708	1,733	
										58.9	59.8	
										5.4	5.3	
14	Mean for year	1,227	1,286	1,376	1,438	1,496	1,546	1,583	1,623			
15	Total "Central Charges"	41.2	43.8	46.3	47.9	49.6	53.4	54.7	57.2			
16	Apportioned to L.T.E. in ratio to capital invested (line 7 to line 14)	3.9	4.1	4.4	4.6	4.9	5.3	5.5	5.5			
(B) London Transport Executive												£ Millions
Ref.		1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	
17	Net Receipts (P1 14), Freight Rebates Fund	7.4	5.2	3.1	Dr. 0.1	2.3	2.0	3.8	5.0	4.5	5.7	
18		.1	.1	.1	—	—	—	—	—	—	—	
19	Central Charges (per line 15 above)	7.3	5.1	3.0	Dr. 0.1	2.3	2.0	3.8	5.0	4.5	5.7	
20	Central Charges (per line 15 above)	3.9	4.1	4.4	4.6	4.9	5.3	5.5	5.5	5.4	5.3	
21	Net Surplus (Cr.) or Deficit (Dr.) for year	Cr. 3.4	Cr. 1.0	Dr. 1.4	Dr. 4.7	Dr. 2.6	Dr. 3.3	Dr. 1.7	Dr. 0.5	Dr. 0.9	Cr. 0.4	
22	Accumulated Surplus (Cr.) or Deficit (Dr.)	Cr. 3.4	Cr. 4.4	Cr. 3.0	Dr. 1.7	Dr. 4.3	Dr. 7.6	Dr. 9.3	Dr. 9.8	Dr. 10.7	Dr. 10.3	

(Note.—Tribunal decision "Y" year (1953-54) £5.4m. Memorandum dated 20th July, 1953)

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[Continued]

TABLE SWH 6

EXPENSES OF LONDON LINES (B.R.): SUMMARY OF B.T.C.'s COSTING EXERCISES, 1954 AND 1958

1954 EXERCISE			Train miles (million)	1958 EXERCISE			Train miles (million)
(i) Expenses of Vehicle Movement Eastern:							
Steam Services			£m.				£m.
1	London, Tilbury, Southend ...	...	1.0				
2	London, Enfield, Chingford ...	...	0.4				
3	Other Eastern Region—costed ...	...	0.6				
4	Total costed services ...	...	2.0	Total costed services ...			2.4
5	Other Eastern Region—non-costed ...	...	1.1	Non-costed services ...			0.5
6			3.1				2.9
7	London Midland Region ...	...	0.7				0.9
8	Southern Region ...	...	0.7				0.7
9	Western Region ...	...	0.6				0.5
10	Total Steam... ..	...	5.1	Total Steam			5.0
Electric Services							
11	Southern ... ..	...	5.1				6.4
12	London Midland ... ..	...	0.6				0.7
13	Eastern ... ..	...	0.6				0.5
14	L.T.E. trains ... ..	...	1.0				1.2
15	Total Electric ... ..	...	7.3				8.8
16							193.3
17	Total, including apportioned costs of through trains ... ..	...	12.4	Diesel Services			0.3
Made up of:				Total—London Lines wholly			14.1
18	(i) London Lines wholly ... ..	...	11.1	(i) London Lines wholly			14.1
19	(ii) Through trains—part ... ..	...	1.3	(ii) Through trains—part			2.0
20	Total... ..	...	12.4				16.1
(ii) Terminal and Documentation Expenses							
21	Station Staff Costs ... ..	...	3.2				
22	Maintenance and renewals of station buildings ... ..	...	0.7				
23	Other expenses—ticket printing, etc. ... ..	...	0.4				
24	Total...	4.3 = 34½ per cent. of vehicle movement expenses	1954 Ratio applied 34½ per cent. of £16.1m. ...			5.5

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[Continued

	Total	Contribution: Freight and Through Passenger Services	Balance (London Lines)		Total	Contribution: Freight and Through Passenger Services	Balance (London Lines)
(iii) <i>Track and Signalling</i>	£m.	£m.	£m.		£m.	£m.	£m.
25 Southern Region:				15 per cent. added			
Track	3.2	1.1	2.1	throughout	3.7	1.3	2.4
26 Signalling	1.3	0.3	1.0	26 per cent. added	1.7	0.4	1.3
	4.5	1.4	3.1	throughout	5.4	1.7	3.7
27 Eastern Region:							
28 Track	1.9	0.9	1.0	17 per cent. added			
29 Signalling	1.0	0.4	0.6	throughout	2.2	1.0	1.2
	2.9	1.3	1.6	17 per cent. added	1.2	0.5	0.7
30				throughout	3.4	1.5	1.9
31 Other Lines:							
Amount added to cover			0.2	Amount added to cover			1.0
32 Total... ..			4.9	Total			6.6
(iv) <i>General Administration</i>							
33 Southern		£m.					
34 Other		0.4					
35		0.3	0.7				1.0
Summary				Summary			Per cent. increase on 1954
36 Vehicle movement			£m.	Vehicle movement			£m.
37 Terminal and documentation			12.4	Terminal and documentation			16.1 30
38, Track and signalling			4.3	Track and Signalling			5.5 28
39 General administration			4.9	General administration			6.6 35
40			0.7				1.0 43
			22.3				29.2 30
41 Less Receipts from Commercial Advertising, Letting of Sites			Cr. 0.1				—

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